



For the Fiscal Year Ended June 30, 2008

Edward G. Rendell
Governor



- THIS PAGE INTENTIONALLY LEFT BLANK -

Commonwealth of Pennsylvania

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2008

Edward G. Rendell, Governor



Prepared By:

***Mary A. Soderberg, Secretary
Office of the Budget***

***Anna Maria Kiehl, CPA, CGFM
Chief Accounting Officer***

This document is available on the Office of the Budget homepage on the World Wide Web at: www.budget.state.pa.us. On our website, click on "Financial Reports" for access to the current and previous reports. Printed bound copies are generally not available, but may be requested from Roxanne Petrovich at the following address:

Office of the Budget, Bureau of Financial Management, 6th Floor, Verizon Tower, Strawberry Square, 303 Walnut Street, Harrisburg, Pennsylvania 17101-1830

**Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Title Page	1
Table of Contents	2
Letter of Transmittal.....	4
Certificate of Achievement.....	10
FINANCIAL SECTION	
REPORT OF INDEPENDENT AUDITORS	12
MANAGEMENT'S DISCUSSION AND ANALYSIS	16
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	38
Statement of Activities.....	40
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	42
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets	43
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	44
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds to the Statement of Activities.....	45
Statement of Net Assets-Proprietary Funds	46
Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Funds.....	48
Statement of Cash Flows-Proprietary Funds.....	50
Statement of Fiduciary Net Assets-Fiduciary Funds.....	52
Statement of Changes in Fiduciary Net Assets-Fiduciary Funds	53
Statement of Net Assets-Discretely Presented Component Units.....	54
Statement of Activities-Discretely Presented Component Units	56
Notes to Financial Statements.....	57
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress and Employer Contributions of Other Postemployment Benefit Plans.	136
Budgetary Comparison Schedule-Budgeted Major Funds-General Fund	137
Budgetary Comparison Schedule-Budgeted Major Funds-Special Revenue Fund-Motor License	138
Notes to Required Supplementary Information	139
COMBINING FINANCIAL STATEMENTS (including Nonmajor Budgetary Comparison Schedules):	
Nonmajor Governmental Funds-Combining Financial Statements:	
Combining Balance Sheet-Nonmajor Governmental Funds	143
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds.....	144
Nonmajor Special Revenue Funds-Combining Financial Statements (including Nonmajor Budgetary Comparison Schedules):	
Special Revenue Funds-Description-Nonmajor Funds	146
Combining Balance Sheet-Nonmajor Governmental Funds-Special Revenue Funds	147
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Special Revenue Funds.....	148

Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund- Banking Department	149
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund- Milk Marketing	150
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund- Workmen's Compensation Administration	151
Nonmajor Debt Service Funds-Combining Financial Statements:	
Debt Service Funds-Description-Nonmajor Funds	153
Combining Balance Sheet-Nonmajor Governmental Funds-Debt Service Funds	154
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Debt Service Funds	155
Nonmajor Capital Projects Funds-Combining Financial Statements:	
Capital Projects Funds-Description-Nonmajor Funds	157
Combining Balance Sheet-Nonmajor Governmental Funds-Capital Projects Funds	158
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Capital Projects Funds	159
Nonmajor Proprietary Funds-Combining Financial Statements-Enterprise Funds:	
Enterprise Funds-Description-Nonmajor Funds	161
Combining Statement of Net Assets-Nonmajor Proprietary Funds-Enterprise Funds	162
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets- Nonmajor Proprietary Funds-Enterprise Funds	164
Combining Statement of Cash Flows-Nonmajor Proprietary Funds-Enterprise Funds	166
Nonmajor Proprietary Funds-Combining Financial Statements-Internal Service Funds:	
Internal Service Funds-Description	169
Combining Statement of Net Assets-Nonmajor Proprietary Funds-Internal Service Funds	170
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets- Nonmajor Proprietary Funds-Internal Service Funds	171
Combining Statement of Cash Flows-Nonmajor Proprietary Funds-Internal Service Funds	172
Fiduciary Funds-Combining Financial Statements-Pension (and Other Employee Benefit) Trust Funds:	
Pension (and Other Employee Benefit) Trust Funds-Description	174
Combining Statement of Fiduciary Net Assets-Pension (and Other Employee Benefit) Trust Funds	175
Combining Statement of Changes in Fiduciary Net Assets- Pension (and Other Employee Benefit) Trust Funds	176
Fiduciary Funds-Combining Financial Statements-Agency Funds:	
Agency Funds-Description	178
Combining Statement of Fiduciary Net Assets-Agency Funds	179
Combining Statement of Changes in Fiduciary Net Assets-Agency Funds	180
Nonmajor Discretely Presented Component Units:	
Nonmajor Discretely Presented Component Units-Description	185
Combining Statement of Net Assets-Nonmajor Discretely Presented Component Units	186
Combining Statement of Activities-Nonmajor Discretely Presented Component Units	188

STATISTICAL SECTION

Statistical Section Table of Contents	192
---	-----



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 29, 2008

MARY SODERBURG
SECRETARY
OFFICE OF THE BUDGET

To the Honorable Governor, Lieutenant Governor, Members of the General Assembly, and Citizens of the Commonwealth of Pennsylvania:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2008. The Office of the Budget, Office of Comptroller Operations, prepared this report, which includes the Basic Financial Statements (BFS), pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

The BFS were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects; that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net assets/fund balances. All disclosures necessary to enable the Governor, the members of the General Assembly, the public, and the financial community to fully understand the Commonwealth's operations and financial affairs have been included. The BFS include information about discretely presented component units, which are legally separate organizations for which the Commonwealth is financially accountable. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget, Office of Comptroller Operations. The Commonwealth relies on its comprehensive framework of internal control in the preparation of basic financial statements. The Commonwealth has established a cost-effective system of internal controls; that is however, subject to inherent limitations, as is in any system of internal controls, in that there is reasonable, but not absolute, assurance as to the effectiveness of the internal control system.

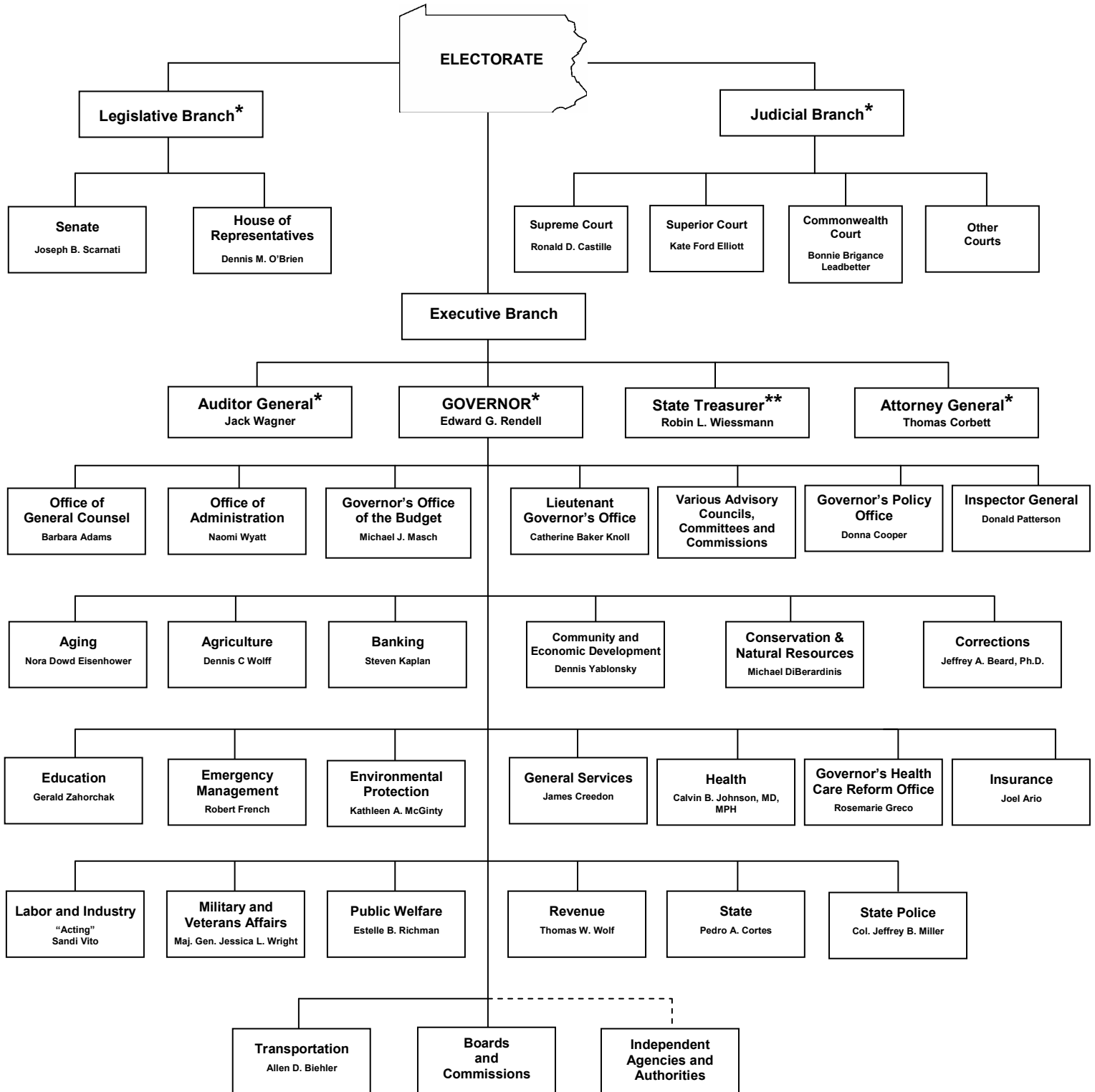
Management's Discussion and Analysis (MD&A) precedes the June 30, 2008 BFS, provides an overview of the Commonwealth's financial position and activities thus helping readers to understand the government-wide statements. This section immediately follows the auditors' opinion. In addition to the MD&A and BFS, this CAFR includes: budgetary comparison schedules, combining fund financial statements; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial trends, revenue capacity, debt capacity, demographic and economic information, capital asset and operating information about the Commonwealth.

PROFILE OF THE GOVERNMENT

Pennsylvania provides a wide variety of services to protect and improve the lives of its 12.5 million inhabitants. Its nickname, the Keystone State, comes from its central location among the original 13 colonies and unique economic ability to sustain industry of the north and the agriculture of the south. Like the Federal government, Pennsylvania's government operates under the direction of a constitution, which created a thorough system of checks and balances among its three equal and independent branches. The legislative branch passes Commonwealth laws, a responsibility carried out by the State Senate and House of Representatives. The Governor, Lieutenant Governor, Attorney General, Auditor General, State Treasurer, and the appointed members of the Governor's cabinet constitute the executive branch. The judicial branch consists of the Supreme Court of Pennsylvania, Superior Court, Commonwealth Court, Court of Common Pleas, and other Special Courts. The following organization charts identify specific Commonwealth officials and staff within Comptroller Operations, at June 30, 2008:

COMMONWEALTH OF PENNSYLVANIA ORGANIZATION AND OFFICIALS CHART

June 30, 2008

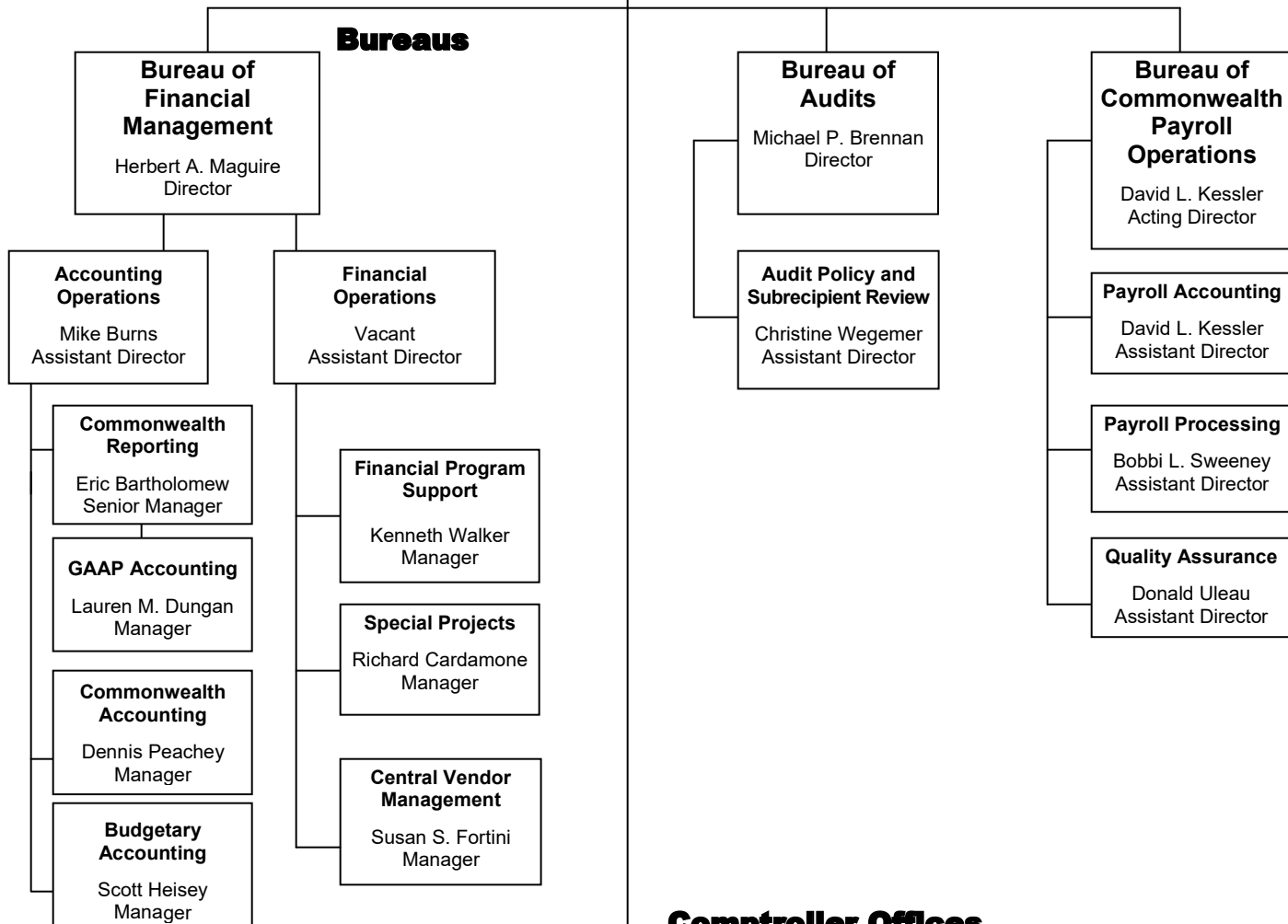


* Independently Elected

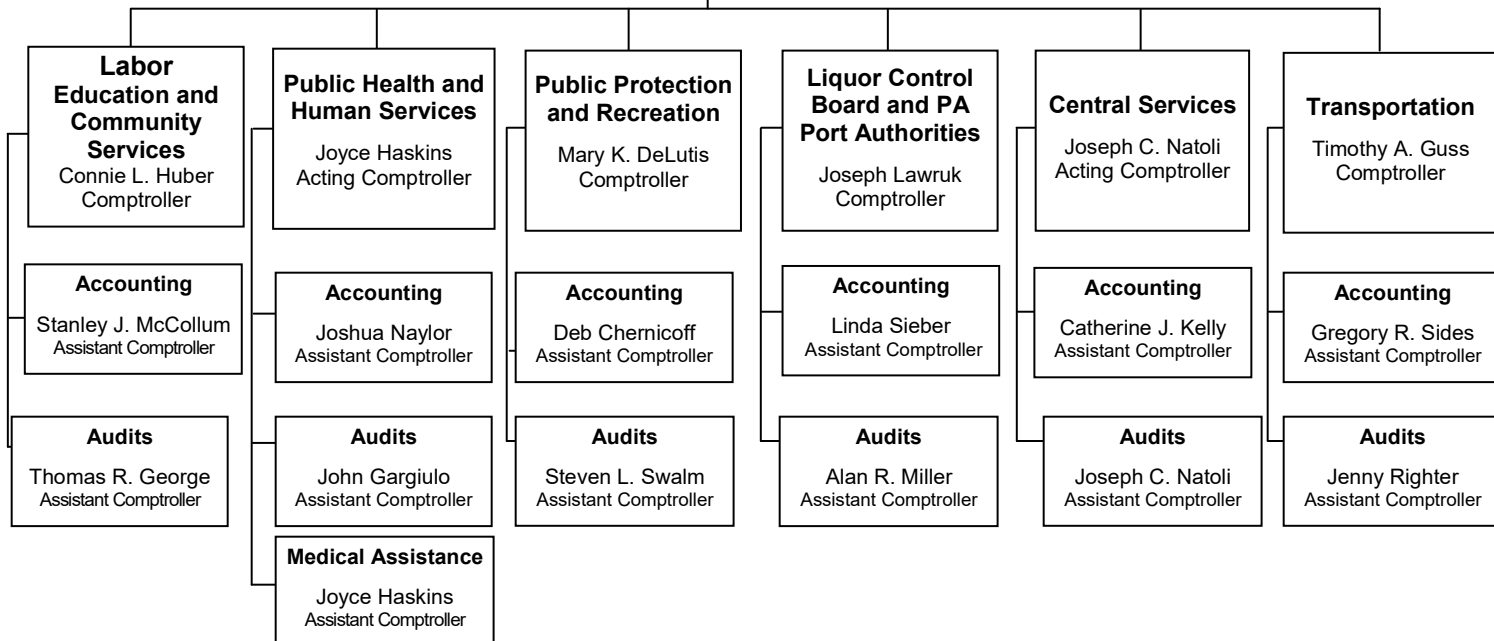
** Nominated by Governor;
Confirmed by Senate

**Chief Accounting Officer
Anna Maria Kiehl**

Bureaus



Comptroller Offices



THE GENERAL FUND BUDGETARY BASIS

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2008. It accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other special funds, and reflects a significant portion of Commonwealth expenditures. Tax revenues, principally personal and corporate income, and sales and use taxes, constitute approximately 89.7 percent of the non-federal General Fund budgetary basis revenues. General Fund expenditures are reported in the following functional assignments, along with the related percentage of non-federal expenditures: direction and supportive services (3.53), protection of persons and property (12.42), health and human services (38.13), public education (38.96), recreation and cultural enrichment (1.15), economic development (2.78), transportation (.06) and transfers to debt service funds (2.97) for all obligations except those incurred for highway or other special revenue fund purposes.

BUDGET ADOPTION AND LEGAL COMPLIANCE BUDGETARY COMPARISON SCHEDULE

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) immediately following the Notes to the Financial Statements. The legally adopted budget provides statutory control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriation. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2008.

BUDGETARY BASIS FUND BALANCE INCREASE/(DECREASE) FIVE MOST RECENT FISCAL YEARS

The following table shows the General Fund's year end unreserved/undesignated fund balance and increases or decreases on a budgetary basis at the end of the five most recent fiscal years (amounts in millions):

General Fund At June 30	Unreserved/ Undesignated Fund Balance	Budgetary Basis Increase (Decrease)
2004 (restated)	\$ 77.5	\$ (118.7)
2005	364.8	287.3
2006 (restated)	522.2	157.4
2007	530.9	8.7
2008	582.8	51.9

During the fiscal year ended June 30, 2008, total General Fund revenues and other sources exceeded expenditures and other uses by \$51.9 and, at June 30, 2008, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$582.8 in the General Fund. This compares to a budgetary basis fund balance of \$530.9 at June 30, 2007. The budgetary basis results for the fiscal year ended June 30, 2008 include revenue collections totaling \$45,366.4, less appropriation authorizations totaling \$45,456.7, plus other net financing sources totaling \$142.1. Included in the \$45,456.7 appropriation authorizations are \$6.84 of state supplemental appropriations and \$55.4 in Federal supplemental appropriations authorized during the fiscal year ended June 30, 2008 (amounts in millions).

ECONOMIC OUTLOOK

The national economy officially entered a recessionary period in December 2007 as declines in multiple economic factors converged. Dramatic declines in the housing sector led to declines in manufacturing, consumption and rising unemployment through most of calendar year 2008. An unraveling of the financial markets in the third quarter of 2008 has accelerated the economic contraction in Pennsylvania and the nation. From mid-2008 to mid-2009, growth in the national economy, as measured by GDP, is expected to average growth of -0.5 to -1.5 percent. Personal consumption levels have dropped significantly during the third quarter and manufacturing levels have reached their lowest levels in the past 26 years. The unemployment rate is expected to continue to climb over 7.0 percent by mid-2009 below recent performances. Aggressive action by the Federal Reserve has been focused on increasing liquidity in the credit markets and preventing further bank failures. Federal fiscal stimulus is expected to assist state governments who are facing budget deficits as result of the economic contraction.

LONG-TERM FINANCIAL PLANNING

Based on the Governor's Executive Budget for 2008-2009, issued in February 2008, during each of the five fiscal years ending June 30, 2013, the Commonwealth expects to receive General Fund revenues between \$29 billion and \$34 billion along with similar, but lower, expenditures. During the same five fiscal years, estimated surpluses range from \$2 million to \$95 million, after General Fund transfers to the Budget Stabilization Reserve Fund (expected to be between \$699 thousand and \$31 million for each of the five fiscal years.) For all Funds included in the Executive Budget, total revenues and available balances carried forward of between \$59 billion and \$60 billion per fiscal year are expected, along with corresponding but lower expenditures. The next Executive Budget is expected to be available in February 2009 and is expected to include planned revenues and expenditures for five fiscal years, through the fiscal year ending June 30, 2014.

RISK MANAGEMENT

The Commonwealth maintains ongoing training and information programs to reduce risks associated with employee injury and negligence, contract compliance, tort liabilities and property losses. As more fully described in Note M to the financial statements, the Commonwealth became self-insured for employee disability and medical claims on July 1, 1983. The Commonwealth is also self-insured for annuitant healthcare benefits and tort liabilities, including automobile, employee and transportation-related claims. Reserves have been established to fund self-insured claims. First-party coverage is obtained for property losses in excess of \$1 million per occurrence, to a limit of \$350 million (\$250 million prior to September 19, 2007) per occurrence. Coverage for property losses less than \$1 million or in excess of \$350 million (\$250 million prior to September 19, 2007) is maintained through the Commonwealth's self-insurance program.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2008 Basic Financial Statements have been jointly audited by the Department of the Auditor General and Ernst & Young LLP, an independent public accounting firm. The independent auditors' opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information included in the BFS.

CERTIFICATE OF ACHIEVEMENT

The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal year ended June 30, 2007. This represents the twenty-second consecutive year the Commonwealth of Pennsylvania has received this award.

To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2008 conforms to the GFOA's award criteria.

ACKNOWLEDGMENTS

We wish to express our appreciation to the staff of the various Commonwealth agencies whose time and dedicated effort made this report possible and, at the same time, to reaffirm our commitment to you to maintain the highest standards of accountability in financial reporting to the citizens of the Commonwealth.

Sincerely,



Mary A. Soderberg
Secretary
Office of the Budget



Anna Maria Kiehl, CPA, CGFM
Chief Accounting Officer
Office of the Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "K. L. R. R.", is positioned above the title "President".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer", is positioned above the title "Executive Director".

Executive Director

Financial Section

-Pennsylvania Symbols-

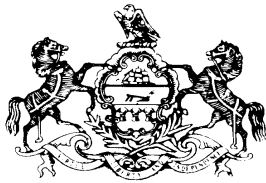
"Commonwealth"



Pennsylvania shares with Virginia, Kentucky and Massachusetts the designation "Commonwealth." The word is of English derivation and refers to the common "weal" or well-being of the public. The State Seal of Pennsylvania does not use the term, but it is a traditional, official designation used in referring to the state, and legal processes are in the name of the Commonwealth. In 1776, our first state constitution referred to Pennsylvania as both "Commonwealth" and "State," a pattern of usage that was perpetuated in the constitutions of 1790, 1838, 1874, and 1968. Today, "State" and "Commonwealth" are correctly used interchangeably. The distinction between them has been held to have no legal significance.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Map courtesy of the Pennsylvania Department of Conservation and Natural Resources (www.dcnr.state.pa.us)



Department of the Auditor General
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120-0018

Ernst & Young LLP
Two Commerce Square
Suite 4000
2001 Market Street
Philadelphia, Pennsylvania 19103-7096
Tel: + 1 215 448 5000
Fax: + 1 215 448 4069
www.ey.com

Report of Independent Auditors

The Honorable Edward G. Rendell, Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2008, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of the Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and certain component units, which represent 99 percent of total assets, 99 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units, and certain agencies, which represent 2 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We also did not jointly audit 99 percent of the total assets, 99 percent of total net assets and 99 percent of the total revenues of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets, 100 percent of the total net assets, and 100 percent of the total revenues of the Private Purpose Trust Funds. This comprises 89 percent of total assets, 95 percent of total net assets and 62 percent of total revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, and these component units, agencies, and Pension and Other Employee Benefit and Private Purpose Trust Funds were audited by other auditors, including Ernst & Young LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, Tuition Payment Fund, and those component units, agencies, and the Pension and Other Employee Benefit and Private Purpose Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited, separately, 100 percent of the Tuition Payment Fund, 34 percent of total assets, 32 percent of total net assets and 29 percent of total operating revenues of the discretely presented component units, as well as 2 percent of the expenditures of the General Fund and 1% of expenses of Governmental Activities. The Department of the Auditor General has audited separately 100 percent of the Tobacco Settlement Fund.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses reported for Governmental Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. Agency Fund assets and liabilities of the Department of the Auditor General equal less than 1 percent and less than 2 percent, respectively, of the total assets and liabilities reported for the aggregate remaining fund information. The Auditor General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the Governor and State Treasurer to vote on the incurrence of debt. The Department of the Auditor General audits and approves determinations of corporate tax liability by the Department of Revenue. If the two departments fail to agree on a determination of tax liability, the Board of Finance and Revenue will make the final decision. The Auditor General is one of the Board's six statutory members. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of the audit of the Commonwealth's basic financial statements, and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Commonwealth's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

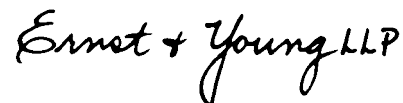
As discussed in Note A, the Commonwealth adopted Governmental Accounting Standards Board Statements No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions;" No. 48 "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues;" and No. 50 "Pension Disclosures."

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with United States generally accepted accounting principles.

As discussed in Note R to the financial statements, disruptions in the capital markets have impacted The Pennsylvania Higher Education Assistance Agency's, a discretely presented component unit, ability to fund the origination of new student loans and to fulfill its commitments to purchase loans from various financial institutions.

Management's discussion and analysis, schedules of funding progress and employer contributions of other postemployment benefit plans, and budgetary comparison information on pages 16 through 34 and 136 through 141 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Pennsylvania's basic financial statements. The introductory section, combining non-major fund and component unit financial statements, budgetary comparison schedules for budgeted non-major funds, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major funds have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



December 23, 2008

Management's Discussion and Analysis

-Pennsylvania Symbols-

"Keystone State"



The word "keystone" comes from architecture and refers to the central, wedge-shaped stone in an arch, which holds all the other stones in place. The application of the term "Keystone State" to Pennsylvania cannot be traced to any single source. It was commonly accepted soon after 1800.

At a Jefferson Republican victory rally in October 1802, Pennsylvania was toasted as "the keystone in the federal union," and in the newspaper Aurora the following year the state was referred to as "the keystone in the democratic arch." The modern persistence of this designation is justified in view of the key position of Pennsylvania in the economic, social, and political development of the United States.

Many Commonwealth agencies, such as the Pennsylvania Department of Education (www.pde.state.pa.us), utilize the keystone in their department logos.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's Comprehensive Annual Financial Report (CAFR) is presented as Required Supplementary Information and provides a review and analysis of the Commonwealth's financial statements for the fiscal year ended June 30, 2008 and a comparison to the prior fiscal year. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which begins on page 4 of this report, and with the Commonwealth's financial statements, which follow.

Executive Summary

Government-wide Statements at-a-glance

Net Assets – Governmental activities net assets totaled \$25.6 billion at June 30, 2008, compared to \$24.3 billion at June 30, 2007. This represents a year over year increase in net assets of \$1.3 billion, following a prior year increase in net assets of \$1.7 billion. For business-type activities, net assets were \$3.2 billion at June 30, 2008, a decrease of \$0.4 billion compared to \$3.6 billion at June 30, 2007. On a combined, net basis, Total Net Assets for Governmental Activities and Business-Type Activities increased by \$.9 billion for the primary government during the fiscal year ended June 30, 2008.

General Obligation Bonds – During the fiscal year, total general obligation bond indebtedness increased by \$.4 billion (\$1.2 billion issued and \$.8 billion repaid) from \$8.2 billion to \$8.6 billion, while total governmental activities liabilities increased by \$2.3 billion.

Fund Statements at-a-glance

Governmental Funds – Fund Balances – Were \$8.830 billion at June 30, 2008 compared to \$8.526 billion at June 30, 2007, for a year-over-year increase of \$304 million.

General Fund – Fund Balance – Was \$2.974 billion at June 30, 2008, compared to \$3.371 billion at June 30, 2007, for a year-over-year decrease of \$397 million.

Overview and discussion of basic financial statements

The Financial Section of the CAFR consists of several parts: the Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements (BFS), Required Supplementary Information, Combining Financial Statements, and Statistical Section. The BFS includes two sets of statements that present different views of the Commonwealth – the government-wide financial statements and the fund financial statements. The Notes to the Financial Statements present additional details and clarification regarding the information presented in these statements.

Government-wide financial statements

Government-wide financial statements portray the Commonwealth's overall financial position (Statement of Net Assets) at June 30, 2008 and its aggregate revenues and expenses (Statement of Activities) for the fiscal year ended June 30, 2008. The Statement of Net Assets presents the assets, liabilities, and net assets for the Commonwealth as a whole. The Statement of Activities presents, by function or program, the expenses, offsetting revenues, and changes in net assets. Both statements classify amounts by Governmental Activities, Business-Type Activities, and Component Units. The component units are organizations that are legally separate from the Commonwealth's primary government. Information related to component units is not included in the MD&A. Each component unit is identified and described in Note A – Summary of Significant Accounting Policies. Audited financial statements for component units are available through the Commonwealth Chief Accounting Officer.

The government-wide financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basis of accounting is similar to the basis used by most business entities and recognizes revenues and expenses when they occur, regardless of when related cash was received or paid.

Fund financial statements – governmental funds

Funds are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to demonstrate compliance with finance related legal requirements. The Commonwealth's Funds are categorized as governmental funds, proprietary funds or fiduciary funds. Further discussion of these categories is in Note A – Summary of Significant Accounting Policies – to the financial statements. Fund financial statements differ from government-wide financial statements in a few ways:

- 1) While the government-wide statements focus on the government taken as a whole, the fund statements reveal more detailed, fund-specific information for major governmental and proprietary funds, and for aggregated, non-major fund information.
- 2) Unlike the aggregated columns for governmental and business-type activities in government-wide statements, the fund statements report individual funds which are established by state law and used to account for specific, mandated activities. Two examples of specific funds are the Motor License Fund, a special revenue fund where gasoline taxes and motor vehicle registration fees are collected and used to repair and build highways, and the Unemployment Compensation Fund, an enterprise fund, used to collect amounts from employers to pay for unemployment compensation to workers.
- 3) The government-wide statements use the full accrual basis of accounting. In the fund statements, governmental funds use the modified accrual basis of accounting and current financial resources measurement focus; whereas the proprietary funds and fiduciary funds use the accrual basis of accounting and economic resources measurement focus.

Government-wide financial analysis

The following presents condensed financial statement information from the Statement of Net Assets (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2008	2007	Change	2008	2007	Change	2008	2007	Change
Assets:									
Cash and investments.....	\$ 14.5	\$ 12.6	\$ 1.9	\$ 6.7	\$ 7.0	\$ (0.3)	\$ 21.2	\$ 19.6	\$ 1.6
Capital assets (net).....	25.1	23.9	1.2	0.1	0.1	-	25.2	24.0	1.2
All other assets.....	6.9	6.2	0.7	1.3	1.3	-	8.2	7.5	0.7
Total assets.....	46.5	42.7	3.8	8.1	8.4	(0.3)	54.6	51.1	3.5
Liabilities:									
Accounts payable.....	5.3	4.5	0.8	0.7	0.6	0.1	6.0	5.1	0.9
All other current liabilities.....	5.7	4.3	1.4	1.7	1.5	0.2	7.4	5.8	1.6
Total current liabilities.....	11.0	8.8	2.2	2.4	2.1	0.3	13.4	10.9	2.5
Bonds payable.....	8.0	7.7	0.3	-	-	-	8.0	7.7	0.3
All other long-term liabilities.....	1.9	1.9	-	2.5	2.7	(0.2)	4.4	4.6	(0.2)
Total long-term liabilities.....	9.9	9.6	0.3	2.5	2.7	(0.2)	12.4	12.3	0.1
Total Liabilities.....	20.9	18.4	2.5	4.9	4.8	0.1	25.8	23.2	2.6
Net assets:									
Invested in capital assets, net of related debt.....	21.5	20.0	1.5	0.1	0.1	-	21.6	20.1	1.5
Restricted.....	4.7	4.0	0.7	3.2	3.5	(0.3)	7.9	7.5	0.4
Unrestricted/(deficit).....	(0.6)	0.3	(0.9)	(0.1)	-	(0.1)	(0.7)	0.3	(1.0)
Total net assets.....	\$ 25.6	\$ 24.3	\$ 1.3	\$ 3.2	\$ 3.6	\$ (0.4)	\$ 28.8	\$ 27.9	\$ 0.9

Changes in assets and liabilities

During the fiscal year ended June 30, 2008, total governmental activities cash and investments increased by \$1.9 billion, due to the size of the Treasury securities lending program nearly doubling year-over-year (\$1.3 billion) and higher accounts payable, primarily amounts due to Commonwealth vendors (\$.7 billion). This cash and investments increase follows a \$1.5 billion increase for the prior year. The net capital assets increase of \$1.2 billion follows a \$1.1 billion increase in the prior year and represents an expansion of, and improvements to, the Commonwealth's reported highway and bridge infrastructure, along with other types of capital assets. Governmental activities current liabilities accounts payable increased by \$.8 billion due to higher overall expenses and the specific timing of invoice processing and voucher payment requests to the Treasury Department. All other governmental activities current liabilities increased by \$1.4 billion, net, resulting primarily from the previously-mentioned size of the Treasury securities lending program nearly doubling year-over-year.

Year over year changes in business-type activities assets and liabilities resulted in a net decrease in net assets of \$0.4 billion; total assets decreased \$0.3 billion and total liabilities increased by \$0.1 billion. Total assets decreased primarily as a result of net decreases in cash and investments reported by the State Workers' Insurance Fund (\$.205 billion decrease); the Tuition Payment Fund (\$.131 billion increase); the State Lottery Fund (\$.119 billion decrease); and the Unemployment Compensation Fund (\$.069 billion decrease). Total liabilities increased primarily because of a year-over-year increase in the total State Workers' Insurance Fund insurance loss liability (\$.168 billion).

The following presents condensed, financial statement information from the Statement of Activities (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2008	2007	Change	2008	2007	Change	2008	2007	Change
Revenues:									
Program revenues:									
Charges for sales and services.....	\$ 4.3	\$ 4.3	\$ -	\$ 7.1	\$ 7.3	\$ (0.2)	\$ 11.4	\$ 11.6	\$ (0.2)
Operating grants and contributions.....	17.9	17.3	0.6	0.4	0.6	(0.2)	18.3	17.9	0.4
Total program revenues.....	22.2	21.6	0.6	7.5	7.9	(0.4)	29.7	29.5	0.2
General revenues:									
Taxes and investment income.....	30.2	29.0	1.2	-	-	-	30.2	29.0	1.2
Total general revenues.....	30.2	29.0	1.2	-	-	-	30.2	29.0	1.2
Total revenues.....	52.4	50.6	1.8	7.5	7.9	(0.4)	59.9	58.5	1.4
Expenses:									
Governmental activities:									
Direction and supportive services.....	1.4	1.2	0.2	-	-	-	1.4	1.2	0.2
Protection of persons and property.....	4.9	4.5	0.4	-	-	-	4.9	4.5	0.4
Public education.....	13.1	12.6	0.5	-	-	-	13.1	12.6	0.5
Health and human services.....	25.2	24.4	0.8	-	-	-	25.2	24.4	0.8
Economic development.....	1.7	1.7	-	-	-	-	1.7	1.7	-
Transportation.....	4.2	3.9	0.3	-	-	-	4.2	3.9	0.3
Recreation and cultural enrichment....	0.6	0.6	-	-	-	-	0.6	0.6	-
Interest.....	0.3	0.3	-	-	-	-	0.3	0.3	-
Business-type activities:									
State lottery.....	-	-	-	3.2	3.1	0.1	3.2	3.1	0.1
Unemployment compensation.....	-	-	-	2.3	2.0	0.3	2.3	2.0	0.3
Liquor control.....	-	-	-	1.3	1.3	-	1.3	1.3	-
Workers' compensation.....	-	-	-	0.6	0.6	-	0.6	0.6	-
Tuition payment.....	-	-	-	0.2	0.3	(0.1)	0.2	0.3	(0.1)
Total expenses.....	51.4	49.2	2.2	7.6	7.3	0.3	59.0	56.5	2.5
Excess/(deficiency) before transfers.....	1.0	1.4	(0.4)	(0.1)	0.6	(0.7)	0.9	2.0	(1.1)
Transfers.....	0.3	0.3	-	(0.3)	(0.3)	-	-	-	-
Increase (decrease) in net assets.....	1.3	1.7	\$ (0.4)	(0.4)	0.3	\$ (0.7)	0.9	2.0	\$ (1.1)
Net assets, beginning.....	24.3	22.6		3.6	3.3		27.9	25.9	
Net assets, ending.....	\$ 25.6	\$ 24.3		\$ 3.2	\$ 3.6		\$ 28.8	\$ 27.9	

Overall changes in net assets

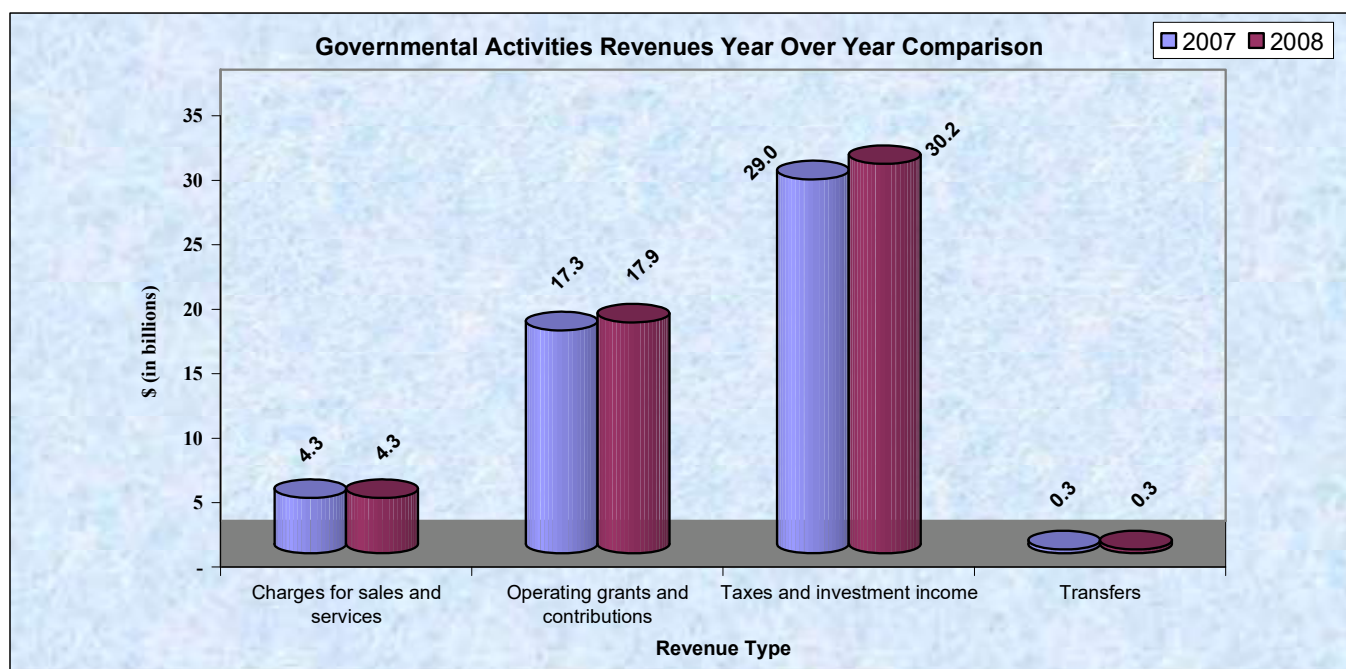
During the fiscal year ended June 30, 2008, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, increased by \$.9 billion, or 3.2 percent of total beginning net assets of \$27.9

billion. For governmental activities, the net increase in net assets was \$1.3 billion or 5.3 percent of beginning net assets of \$24.3 billion. Total investments, excluding the State Employees' Retirement Fund and all other fiduciary funds, totaled over \$19.3 billion and total cash balances were over \$1.8 billion. These amounts represent considerable financial resources for the current and future fiscal years. The increase in governmental activities net assets (\$1.3 billion) was \$400 million less than the prior year change, where revenues, transfers and special items exceeded expenses by \$1.7 billion. These increases represent significant year-over-year improvements in the Commonwealth's overall financial position, respectively, during the fiscal years ended June 30, 2008 and 2007.

The \$.4 billion decrease in total net assets for business-type activities follows a \$.3 billion increase during the prior fiscal year. The \$.7 billion year over year decrease is partially attributable to a net assets decrease of \$0.1 billion in the unemployment compensation program, where the prior year net assets increase was over \$0.2 billion. During the current fiscal year, unemployment compensation revenues decreased by \$.1 billion while expenses increased by \$.2 billion; in the prior year revenues increased and expenses decreased. Statutory contribution decreases occurred during both fiscal years. Also, during the fiscal year ended June 30, 2008, combined decreases in net assets of the State Lottery Fund (\$212 million decrease in the current year compared to \$9.4 million decrease in the prior year) and the Tuition Payment Fund (\$132 million decrease in the current year compared to \$52 million increase in the prior year) were reported.

Changes in revenues and expenses for governmental activities

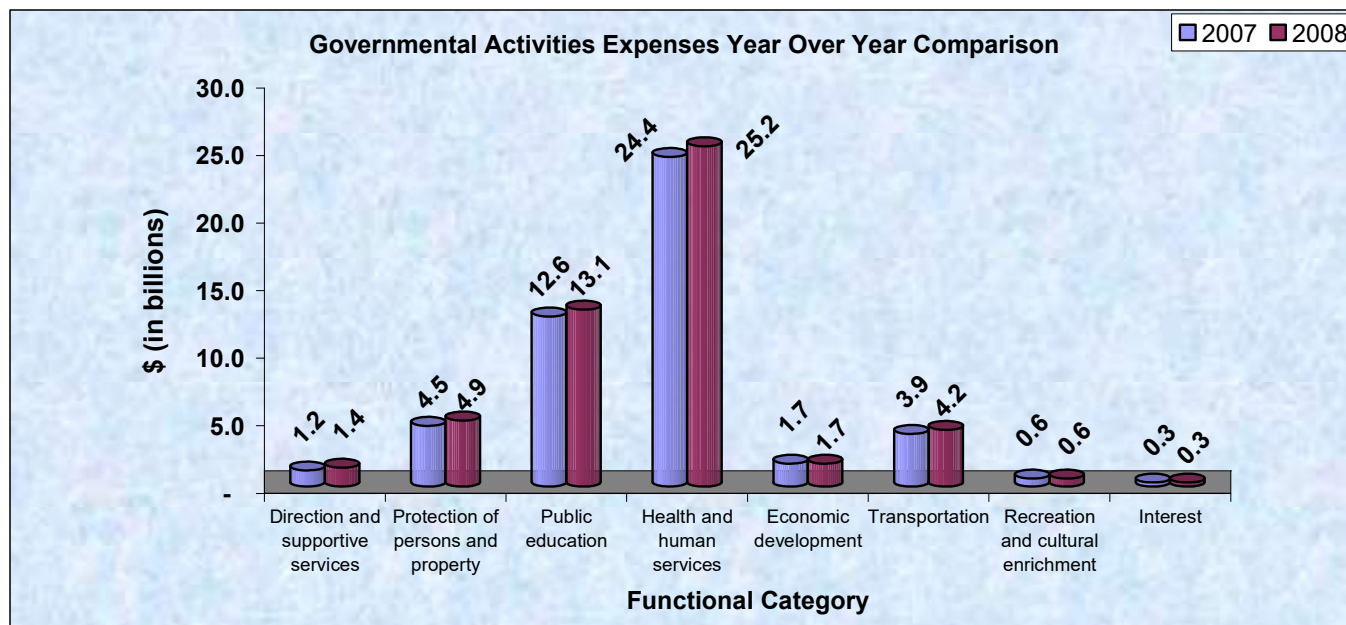
The following chart provides a year-over-year comparison of governmental activities revenues:



For governmental activities, general revenues increased by \$1.2 billion, net, during the fiscal year, largely as a result of increases in reported General Fund tax revenues (nearly \$400 million), Gaming tax revenues (\$518 million), new, first-year tax revenues in the Public Transportation Trust Fund (\$429 million) and increases in tax revenues in the Keystone Recreation, Park and Conservation Fund (\$57 million). On a full-accrual basis, governmental activities tax revenues increased over \$1.4 billion while investment income decreased nearly \$.2 billion during the fiscal year ended June 30, 2008. Such increases were the result of improving overall economic conditions in the Commonwealth; the largest of such increases was in personal income taxes. Net increases in tax revenues, however, were partially offset by reported decreases in investment income for almost all governmental funds (over \$600 million) as investment valuations decreased during the last six months of the fiscal year ended June 30, 2008. Operating grants and contributions, which largely represents Federal participation in specific General Fund and other programs, increased by \$.6 billion during the fiscal year primarily because of new, first-year revenues from the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit, totaling \$750 million. These revenues were received under the provisions of Act 44 of 2007 and the related Lease and Funding Agreement between the PTC and Commonwealth primary government (Department of Transportation). Federal revenues in General Fund programs

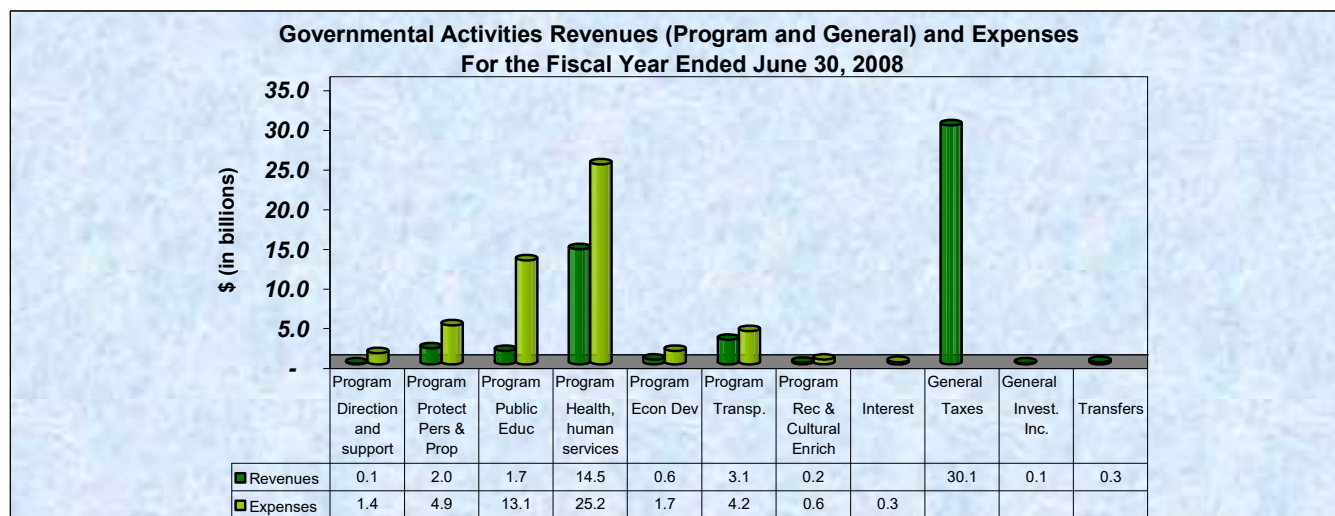
increased only \$258 million during the current fiscal year, while Federal revenues in Motor License Fund programs were nearly flat. Program charges for business-type activities decreased by \$.2 billion, net, primarily because of decreases in unemployment compensation tax revenues (\$.1 billion decrease) and a small decrease in tuition payment credit sales. Operating grants and contributions for business-type activities decreased by \$.2 billion largely due to decreases in investment income (over \$228 million) due to relatively lower year-over-year investment valuations.

The following chart provides a year-over-year comparison of governmental activities expenses:



For governmental activities, total expenses increased \$2.2 billion (4.5 percent) largely due to significant increases in expenses for health and human services (\$.8 billion), public education (\$.5 billion), protection of persons and property (\$.4 billion), and transportation (\$.3 billion). Also, there was an increase in reported expenses for direction and supportive services (\$.2 billion) and expenses for recreation and cultural enrichment and interest were flat year-over-year.

The following chart presents governmental activities revenues compared to expenses for the fiscal year ended June 30, 2008:



Changes in revenues and expenses for business-type activities

During the current fiscal year, total business-type activities expenses exceeded total revenues by \$0.1 billion; in the prior fiscal year, total revenues were \$0.6 billion higher than expenses. Including the effects of net transfers to other Funds of \$.3 billion (equal to \$.3 billion in the prior year), business-type activities net assets decreased by \$.4 billion versus a \$.3 billion increase in the prior year. The primary reasons for the overall year-over-year decrease of \$.7 billion were a \$113 million decrease in Unemployment Compensation Fund revenues (primarily unemployment taxes) and a \$216 million increase in related benefit claims expenses; also, a \$154 million increase in amounts transferred from the State Lottery Fund (a new \$80 million transfer to the Public Transportation Trust Fund, and a \$74 million transfer increase to the PACE Fund).

Overall, expenses for business-type activities increased by \$.3 billion, a 4.1 percent increase over the prior fiscal year. Expenses for different programs increased as follows: unemployment compensation (\$216 million), state lottery (\$57 million), and workers' compensation (\$57 million), offset by a decrease in tuition payment expenses (\$47 million).

General Fund – economic factors during the fiscal year ended June 30, 2008

The national economic slowdown and a recession in the housing sector adversely impacted growth in the Commonwealth during fiscal year 2008. Declining home sales and home values, a contraction in available credit from woes in the financial markets, higher unemployment, slow growth in personal income and lower personal consumption resulted in slow economic growth in fiscal year 2008. The fiscal year 2008 revenue estimate for the Commonwealth was based upon an economic forecast of 2.4 percent growth in gross domestic product from the start of the third quarter of 2007 to the end of the second quarter of 2008. Actual growth in the national economy during fiscal year 2008 averaged 2.5 percent. However, as in recent years, economic growth was fitful throughout the fiscal year. Economic activity was strong in late 2007, growing at an annual rate of 4.9 percent only to slow to 0.9 and 0.8 percent annual growth in the fourth quarter of 2007 and the first quarter of 2008 respectively. The national unemployment rate grew by more than a full percentage point and the growth in personal income was at its lowest level since 2003. Despite slowing economic activity, Commonwealth revenues continued to exceed budget estimates for fiscal year 2008.

General Fund – budgetary basis – comparison between original budget and final budget

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2008 is presented immediately following the Notes to the Financial Statements. In the Final Budget, State Program revenues were adjusted to include revenues received by fiscal year-end (but not included in the Commonwealth's official revenue estimate), in an amount equal to 2007-08 supplemental appropriations passed on July 4, 2008 by Act 38-A.

Final budgeted revenues for total state programs exceed the original budget by \$296 million. This increase includes a net \$27 million increase in tax revenues resulting from a \$7 million adjustment for supplemental appropriations referred to in the preceding paragraph and a \$20 million change in revenue refunds from original to final budget. The \$296 million increase also includes a net increase of \$269 million in departmental services revenue. This increase is attributable primarily to decreases in the Department of Public Welfare's Intergovernmental Transfer (\$73 million) and Nursing Home Assessment (\$43 million) revenues where original budgeted revenues were not realized, and transfers of \$445 million in augmenting revenues from the Motor License Fund for State Police protection of Commonwealth highways (in this case there is no true increase in funds available to the State Police). Also, \$77 million in augmentations in the Higher Education Assistance Agency are shown in the budget document for informational purposes (shows in original budget but not final).

The General Fund Schedule also discloses that the final budget includes \$298 million more expenditures than the original budget. The \$298 million increase includes \$277 million in state program expenditure increases and \$22 million of increased Federal participation in various programs. Of the \$277 million net state program difference, a \$490 million increase in protection of persons and property expenditures results primarily from a \$445 million increase in spending authority for State Police protection of Commonwealth highways. Further, an \$82 million decrease in public education expenditures reflects the Higher Education Assistance Agency estimated augmentations shown for informational purposes in the original budget. The \$149 million decrease in health and human service expenditures primarily reflects lower than projected eligibility growth and costs for medical assistance and cash assistance programs. The increase of \$22 million in Federal programs and corresponding revenues relates primarily to additional appropriations and executive authorizations passed or authorized throughout the fiscal year. The difference between the Original Budget and Final Budget for lapses is comprised of the

following: direction and supportive services, \$17 million; health and human services, \$48 million; public education, \$34 million; economic development, \$31 million; and all other affected agencies, \$12 million.

General Fund – budgetary basis – comparison between final budgeted and actual results

Actual budgetary State Program revenues exceeded the final budgeted State Program revenues by \$161 million. The \$161 million net increase results primarily from a \$167 million increase in tax revenues related primarily to improving national and state economic conditions, and a \$94 million decrease in investment income related to market conditions. Budgetary lapses for a variety of specific appropriations and executive authorizations in the amount of \$214 million were also posted to reduce State Program spending authority. Actual Federal revenues and corresponding expenditures were \$383 million lower than budgeted for the following agencies: Public Welfare, \$337 million; Health, \$30 million; Education, \$10 million; and all other affected agencies, \$6 million. Unclaimed property revenues increased due to the implementation of new compliance procedures and audit efforts yielding more unclaimed property than expected. Actual, final General Fund expenditures (budgetary basis) increased by 1.7 percent over the prior fiscal year, while revenues (budgetary basis) increased 1.27 percent.

Measurement focus and basis of accounting – governmental funds

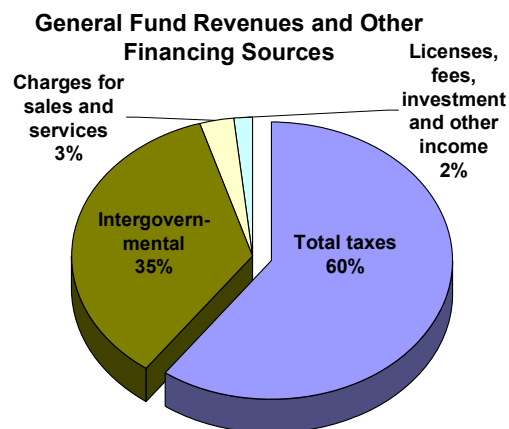
The General Fund and special revenue, debt service and capital projects fund types are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally included on the balance sheet. Operating statements of these fund types present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available, spendable resources. Under the modified accrual basis of accounting, governmental funds recognize revenue in the year that it becomes susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. Grant revenues, including Federal government grant revenues, are recognized when earned. Revenue recognition from most other sources occurs at receipt. Recognition of expenditures generally occurs in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used.

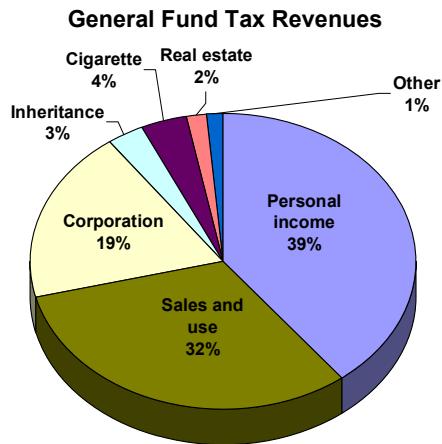
Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

Discussion of individual funds, balances and transactions

General Fund

The General Fund, the Commonwealth's largest fund, accounts for 80 percent of the total governmental fund type revenues and other financial sources and 81 percent of the total governmental fund type expenditures and other financing uses. The General Fund collects 88 percent of the total tax revenues and is the primary funding source for most Commonwealth agencies. The charts depicted on this page and the following page present a comparison of the major types of revenues and expenditures reported in the General Fund. Taxes and intergovernmental revenues represent the largest sources of revenue, while health and human services and education represent the largest outflows or expenditures.

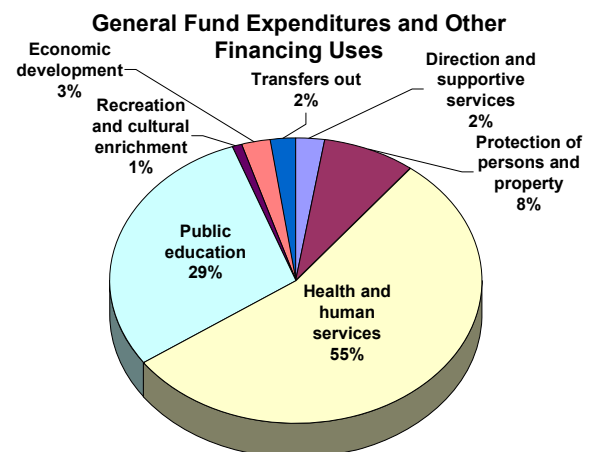




The largest significant source of tax revenue-net of refunds (\$26,391) is Personal Income Tax (PIT). Reported PIT (\$10,402) accounts for 39 percent of all taxes reported. Sales tax, which represents a tax on various items purchased by consumers, is the second largest category. Reported sales tax (\$8,391) accounts for 32 percent of all taxes reported. Corporate income tax, which represents different taxes (including the Corporate Net Income Tax and the Capital Stock/Foreign Franchise Tax) on various corporations, is the third largest category. Reported corporate income tax (\$4,984) accounts for 19 percent of all taxes reported. These three tax categories represent the Commonwealth's largest own-source revenues. Although not available for the current year, prior year statistical information for these three tax categories is presented in the Revenue Capacity portion of the Statistical Section (amounts in millions).

Expenditures

The General Fund reported a total of \$44,450 in total expenditures (\$43,438) and other financing uses (\$1,012) during the fiscal year ended June 30, 2008. Expenditures for health and human services (\$24,318) accounted for 55 percent of all General Fund expenditures and other financing uses. Of these health and human services expenditures, 96 percent (\$23,226) were reported by the Department of Public Welfare. The second largest category, public education, accounts for 29 percent (\$12,996) of the reported expenditures. Of the public education expenditures, 93 percent (\$12,026) are reported by the Department of Education (amounts in millions). The chart shown on the right reports the percentages expended in each category.



Comparative Financial Statements for the General Fund

Condensed comparative General Fund balance sheets at June 30, 2008 and 2007 are as follows (amounts in millions):

			Increase (Decrease)	
	2008	2007	Change	Percent
Assets:				
Cash and investments.....	\$ 6,680	\$ 6,072	\$ 608	10%
Receivables, net.....	3,806	3,511	295	8%
Due from other funds/governments/advances/other.....	2,003	1,579	424	27%
Total assets.....	\$ 12,489	\$ 11,162	\$ 1,327	12%
Liabilities:				
Accounts payable and tax refunds payable.....	\$ 4,839	\$ 4,044	\$ 795	20%
Securities lending obligations.....	1,326	620	706	114%
Due to other funds/governments/advances/other.....	1,168	1,113	55	5%
Unearned revenue.....	2,182	2,014	168	8%
Total liabilities.....	9,515	7,791	1,724	22%
Fund Balance:				
Reserved.....	2,585	2,078	507	24%
Unreserved:				
Designated.....	379	924	(545)	-59%
Undesignated.....	10	369	(359)	-97%
Total fund balance.....	2,974	3,371	(397)	-12%
Total liabilities and fund balance.....	\$ 12,489	\$ 11,162	\$ 1,327	

During the fiscal year ended June 30, 2008, cash and investments increased by \$608 million (10 percent) compared to the prior year; also, similarly, securities lending obligations increased \$706 million, as the relative size of the Treasury Securities Lending Program more than doubled in size in relation to the June 30, 2007 lending program. Accounts payable increased nearly \$721 million and tax refunds payable increased nearly \$75 million. Unearned revenue increased over \$168 million, primarily because of the unavailable portion of the increase in taxes receivable of over \$216 million.

Fund balance reservations increased \$507 million primarily due to a nearly \$214 million increase for continuing programs, a \$207 million increase in the statutory Budget Stabilization Reserve Fund, which is reported as part of the General Fund and a \$90 million increase for restricted revenues. Fund balance designations decreased \$545 million, net, primarily due to the elimination of amounts designated at June 30, 2007 for: agency construction projects (\$139 million), judicial computer system (\$134 million), and two radio projects (\$69 million) and reductions in current year designations for job creation tax credits (\$103 million), public welfare and medical assistance (\$50 million) and Commonwealth employee health benefits and life insurance (\$44 million). Overall fund balance decreased by \$397 million during the fiscal year ended June 30, 2008, and unreserved/undesignated fund balance decreased by \$359 million.

Condensed, comparative, General Fund operating statements for the fiscal years ended June 30, 2008 and 2007 follow (amounts in millions):

	2008	2007	Increase (Decrease) Change	Percent
Revenues:				
Taxes, net of refunds				
Personal income.....	\$ 10,402	\$ 9,813	\$ 589	6%
Sales and use.....	8,391	8,614	(223)	-3%
Corporation.....	4,984	4,976	8	0%
Inheritance.....	781	768	13	2%
Cigarette.....	1,006	963	43	4%
Real estate.....	425	565	(140)	-25%
Other.....	402	293	109	37%
Total taxes, net of refunds.....	<u>26,391</u>	<u>25,992</u>	<u>399</u>	2%
Intergovernmental.....	15,419	15,161	258	2%
Charges for sales and services.....	1,384	1,335	49	4%
Licenses/fees/investment and other income.....	738	814	(76)	-9%
Total revenues.....	<u>43,932</u>	<u>43,302</u>	<u>630</u>	1%
Expenditures:				
Direction and supportive services.....	1,080	892	188	21%
Protection of persons and property.....	3,547	3,336	211	6%
Health and human services.....	24,318	23,537	781	3%
Public education.....	12,996	12,373	623	5%
Recreation and cultural enrichment.....	331	353	(22)	-6%
Economic development.....	1,122	1,204	(82)	-7%
Transportation.....	25	435	(410)	-94%
Capital outlay.....	19	25	(6)	-24%
Other expenditures.....	-	3	(3)	-100%
Total expenditures.....	<u>43,438</u>	<u>42,158</u>	<u>1,280</u>	3%
Revenues over expenditures.....	<u>494</u>	<u>1,144</u>	<u>(650)</u>	-57%
Other financing sources (uses):				
Transfers in.....	120	201	(81)	-40%
Transfers out.....	(1,012)	(946)	(66)	7%
Capital lease and installment purchase obligations.....	1	2	(1)	-50%
Net other financing uses.....	<u>(891)</u>	<u>(743)</u>	<u>(148)</u>	20%
Net change in fund balance.....	<u>(397)</u>	<u>401</u>	<u>\$ (798)</u>	
Fund balance, beginning.....	<u>3,371</u>	<u>2,970</u>		
Fund balance, ending.....	<u>\$ 2,974</u>	<u>\$ 3,371</u>		

General Fund tax revenues increased overall by 2 percent during the fiscal year ended June 30, 2008. Although most of the overall increase is attributable to economic growth, increases/decreases within several specific tax types were larger or smaller than 2 percent. Personal Income Tax (PIT) revenues rose by 6 percent – most of this growth occurred in non-employer-withheld PIT. This growth can be attributed to strong capital gains reported for calendar year 2007 that caused tax payments for this class of personal income to grow by 13 percent during the current fiscal year. The PIT increase was offset by declines in Sales/Use and Real Estate Tax revenues. Sales/Use Tax revenues decreased by 3 percent primarily as a result of

the elimination of the 1.22 percent Supplemental Public Transit Assistance (SPTA) transfer, which was replaced with a 4.4 percent transfer to the Public Transportation Trust Fund (PTTF). The PTTF was created by Act 44 of 2007 to provide another dedicated funding source for public transportation programs in the Commonwealth. The decline in Real Estate Taxes was attributable to an increase in the percentage rate for transfers from the Realty Transfer Tax in the General Fund to the Keystone Recreation, Park and Conservation Fund, from 2.1 percent in the prior year to 15 percent during the current fiscal year. Overall, Corporation Tax revenues were flat year-over-year. There was a substantial increase (37 percent) within the Other Tax revenues category. This increase occurred as a result of a change in accounting treatment related to Job Creation Tax Credits. The change in treatment allows utilization of credits to affect the General Fund consistent with accounting treatment for all other types of tax credits. Finally, Cigarette Tax revenues increased by 4 percent due to increased enforcement activities.

Intergovernmental revenues increased by \$258 million, net, resulting primarily from Health and human services related Federal programs. Total General Fund revenues increased by \$630 million (1.45 percent) during the fiscal year ended June 30, 2008.

Total General Fund expenditures increased by 3.04 percent during the fiscal year ended June 30, 2008, by \$1.280 billion. Reported expenditures for health and human services expenditures increased by \$781 million, caused by a higher aggregate need for medical assistance services, and income or cash grant assistance. Public education expenditures increased by \$623 million due primarily to increases in basic education (\$166 million), school employee retirement (\$77 million), pre-K programs (\$60 million), higher education subsidies (\$55 million) and several other subsidies to school districts (\$265 million). Protection of person and property expenditures increase primarily for corrections related programs (\$97 million), Children's Health Insurance Program (\$48 million), Volunteer Fire Company grants (\$48 million) and other programs (\$18 million). Transportation expenditures decreased due to Act 44 of 2007 transferring the spending authority for mass transportation programs from the General Fund to the Public Transportation Trust Fund. Direction and supportive services expenditures increased by \$188 million, net, due primarily to changes in reporting payroll expenditures related to retiree healthcare programs. Expenditures for economic development decreased by \$82 million due to reduced spending on community/local government opportunity and revitalization programs.

Reported Transfers to the General Fund decreased by \$81 million, net, primarily because of 1) a \$70.0 million decrease in the State Stores Fund profits transfer, 2) a prior year \$17.5 million transfer from the Manufacturing Fund which did not occur in the current fiscal year, 3) new \$9.4 million transfer from the Environmental Stewardship Fund, 4) a prior year \$4.4 million transfer from the Public Transportation Assistance Fund which did not occur in the current fiscal year, 5) a new \$3.0 million transfer from the Capital Facilities Fund, and 6) a \$1.7 million decrease in the amount transferred from the State Racing Fund. Reported Transfers from the General Fund increased by \$66 million mainly because of 1) a \$31.4 million increase to debt service funds, 2) total first-year transfers of \$13.9 million to Commonwealth Funds representing in-substance repayment of expenditures posted in prior fiscal years for retiree healthcare benefit costs charged via biweekly payroll processing/payment, 3) a new \$5.5 million transfer to the Conservation District Fund, 4) a new \$12.8 million transfer to the Hazardous Sites Cleanup Fund, and 5) a \$2.5 million increase in transfers to the Community College Capital Fund.

The overall decrease in fund balance, \$397 million during the fiscal year, represents a year-over-year decrease in the change in total fund balance of \$798 million. The prior year increase in fund balance was \$401 million.

Motor License Fund

Condensed, comparative, financial statement information for the Motor License Fund is as follows (amounts in millions):

Description	2008		2007		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 2,300	86%	\$ 1,854	\$ 446	24%	
Other assets.....	362	14%	396	(34)	-9%	
Total assets.....	\$ 2,662	100%	\$ 2,250	\$ 412	18%	
Accounts payable.....	\$ 475	43%	\$ 525	\$ (50)	-10%	
Securities lending obligations.....	492	45%	207	285	138%	
Other liabilities.....	128	12%	99	29	29%	
Total liabilities.....	1,095	100%	831	264	32%	
Total fund balance.....	1,567	100%	1,419	148	10%	
Total liabilities and fund balance.....	\$ 2,662	100%	\$ 2,250	\$ 412	18%	
Tax revenues.....	\$ 2,024	41%	\$ 2,072	\$ (48)	-2%	
License and fees.....	877	18%	879	(2)	0%	
Intergovernmental.....	1,913	39%	1,448	465	32%	
Other revenues.....	115	2%	250	(135)	-54%	
Total revenues.....	4,929	100%	4,649	280	6%	
Direction and supportive services.....	67	1%	67	-	0%	
Protection of persons and property.....	647	14%	667	(20)	-3%	
Transportation.....	2,198	47%	2,327	(129)	-6%	
Capital outlay.....	1,793	38%	1,672	121	7%	
Other expenditures.....	2	0%	1	1	100%	
Total expenditures.....	4,707	100%	4,734	(27)	-1%	
Net transfers out.....	(74)	100%	(45)	(29)	64%	
Net change in fund balances.....	\$ 148		\$ (130)	\$ 278		

Overall, total revenues increased by \$280 million during the fiscal year ended June 30, 2008; this represents a 6 percent increase over last fiscal year. The most significant factor was \$450 million in first-year intergovernmental revenues from the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit of the Commonwealth. These PTC payments were made based on Act 44 of 2007 and the resulting agreement between the Commonwealth and the PTC for the proposed leasing of Interstate 80 to the PTC, pending approval of the Federal government. Also, a new appropriation this year, the Red Light Photo Enforcement Program, generated additional revenues of \$3 million. Most of the decrease in other revenues was caused by a \$130 million decrease in investment income due to lower securities valuation as of June 30, 2008, and lower tax revenues (\$48 million) driven by decreased gasoline and diesel fuel consumption during the current fiscal year.

Overall, total expenditures decreased by \$27 million, or less than one percent, during the fiscal year. This decrease is primarily a result of the \$20 million reduction in appropriations and expenditures for protection of persons and property. This reduction occurred because the level of funding provided last year by the Motor License Fund to the General Fund (State Police) for highway patrols and other public safety functions was not renewed at the prior year level. The increase in cash and investments, net of securities lending obligations, is a direct result of the net revenue increases explained above. Other assets decreased due to lower receivables from the Federal government as the billing cycle for the Federal Highway Administration allowed for higher collections, causing less amounts receivable (\$18 million) at fiscal year end. Additionally, liquid fuels taxes receivable decreased by \$13 million as a result of the overall decrease in gasoline and diesel fuel consumption during the fiscal year. Accounts payable decreased by \$50 million, primarily as a result of overall decreases in expenditures. Other liabilities increased by \$29 million due in part to an \$18 million liability to other state governments for commercial drivers license reimbursements according to the Apportionment Renewal Program. Also, a combined \$8 million liability is due from the Motor License Fund to the General Fund (Department of Revenue) and the Purchasing Fund for vehicle sales tax collections and purchasing card obligations, respectively, both resulting from procedural changes.

Net transfers to other Funds decreased by \$29 million due primarily to a \$40 million transfer to the PA Infrastructure Bank Fund to provide additional funding for the Municipal Loan Program; a \$7.9 million transfer from the General Fund for contributions towards retiree healthcare benefits; and a \$3.2 million transfer from the Public Transportation Trust Fund for interest on amounts borrowed and repaid during the fiscal year ended June 30, 2008.

Tobacco Settlement Fund

Condensed, comparative, financial statement information for the Tobacco Settlement Fund is as follows (amounts in millions):

Description	2008		2007		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 1,419	80%	\$ 1,586	\$ (167)	-11%	
Other assets.....	345	20%	289	56	19%	
Total assets.....	\$ 1,764	100%	\$ 1,875	\$ (111)	-6%	
Accounts payable.....	\$ 179	30%	\$ 144	\$ 35	24%	
Securities lending obligations.....	167	28%	274	(107)	-39%	
Other liabilities.....	260	43%	226	34	15%	
Total liabilities.....	606	100%	644	(38)	-6%	
Total fund balance.....	1,158	100%	1,231	(73)	-6%	
Total liabilities and fund balance.....	\$ 1,764	100%	\$ 1,875	\$ (111)	-6%	
Intergovernmental.....	\$ 133	23%	\$ 121	\$ 12	10%	
Investment income.....	(35)	-6%	148	(183)	-124%	
Other revenues.....	473	83%	445	28	6%	
Total revenues.....	571	100%	714	(143)	-20%	
Protection of persons and property.....	165	27%	166	(1)	-1%	
Health and human services.....	442	72%	382	60	16%	
Economic development.....	9	1%	3	6	200%	
Total expenditures.....	616	100%	551	65	12%	
Net transfers (out).....	(28)	100%	(27)	(1)	4%	
Net change in fund balances.....	\$ (73)		\$ 136	\$ (209)		

The year-over-year decrease in cash and investments of \$167 million is due largely to lower investment valuations resulting in portfolio losses and a \$107 million decrease in the size of Treasury's securities lending program as of June 30, 2008. Other assets increased \$56 million due to 1) a \$19 million increase in the Master Settlement Agreement (MSA) receivable estimate based on current year receipts 2) a \$19 million increase in investment sales receivable as of June 30, 2008, 3) a \$10 million increase in the receivable for Community Health Reinvestment (CHR) revenues caused by an increase in amounts due from participating insurance companies, 4) a \$10 million increase for the accrual of federal revenue related to anticipated expenditures for the Medical Assistance for Workers with Disabilities (MAWD) program, and 5) a \$2 million decrease in interest receivable as of June 30, 2008. Accounts payable increased \$35 million due to an \$11 million increase in investment purchases payable as of June 30, 2008, and higher expenditure accruals for amounts owed to vendors and grantees and the amount of payment requests in-process as of June 30, 2008. Other liabilities increased by \$34 million due to 1) a \$29 million increase in unearned revenue related to the increased CHR and MSA receivables, 2) a \$6 million increase in the amount due to other funds related to the accrual for MAWD expenditures and 3) a \$1 million decrease in various liabilities.

During the fiscal year, investment income decreased \$183 million due to lower year-over-year investment valuations. It should be noted that \$101 million of the current year investment loss is unrealized as of June 30, 2008. Other revenues increased \$28 million due to the receipt of the first of ten annual strategic payments as outlined in the Master Settlement Agreement. Expenditures for health and human services increased \$60 million due to 1) a \$40 million increase in expenditures for Medical Assistance Long-Term Care, 2) a \$4 million increase in Tobacco Use Prevention and Cessation program expenditures, 3) a \$6 million increase in the accrual of expenditures for Uncompensated Care, 4) a \$6 million increase in the accrual of expenditures for MAWD and 4) a \$4 million increase in total amounts appropriated for expenditure.

Measurement focus and basis of accounting – proprietary funds

The enterprise funds and internal service funds (proprietary funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of these fund types are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned, and expenses are recognized in the fiscal year incurred. Enterprise funds that report loan, insurance and tuition payment programs report most revenues as operating revenues; non-operating revenues are reported for other programs and include grant revenues and all investment income. Four enterprise funds are reported as major funds and are discussed.

Unemployment Compensation Fund

Condensed, comparative, financial statement information for the Unemployment Compensation Fund is as follows (amounts in millions):

Description	2008		2007		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and investments.....	\$ 1,746	73%	\$ 1,815	\$ (69)	-4%	
Unemployment assessments receivable.....	466	20%	510	(44)	-9%	
Other assets.....	175	7%	142	33	23%	
Total assets.....	2,387	100%	2,467	(80)	-3%	
Accounts payable.....	91	92%	95	(4)	-4%	
Other liabilities.....	8	8%	6	2	33%	
Total liabilities.....	99	100%	101	(2)	-2%	
Total net assets.....	\$ 2,288	100%	\$ 2,366	\$ (78)	-3%	
Sales and services.....	\$ 2,061	96%	\$ 2,172	\$ (111)	-5%	
Other revenues.....	77	4%	79	(2)	-3%	
Total operating revenues.....	2,138	100%	2,251	(113)	-5%	
Cost of sales and services.....	2,289	100%	2,075	214	10%	
Total operating expenses.....	2,289	100%	2,075	214	10%	
Operating income/(loss).....	(151)		176	(327)	-186%	
Nonoperating revenues.....	77		70	7	10%	
Income (loss) before transfers.....	(74)		246	(320)	-130%	
Transfers.....	(4)		(3)	(1)	33%	
Increase(decrease) in net assets.....	\$ (78)		\$ 243	\$ (321)		

During the fiscal year ended June 30, 2008, employer assessment revenues decreased by \$111 million caused, primarily, by overall employer tax rates decreasing from 5.0 percent of payroll during the prior fiscal year to 4.7 percent during the current fiscal year. There was a corresponding decrease in unemployment assessments receivable as of June 30, 2008. The employer tax rate is established by the Department of Labor & Industry's Unemployment Compensation Tax Services Unit. The rate is partially based on individual employer's experience. Experience is computed using a formula that includes the amount of unemployment benefits charged to an employer and the amount of unemployment taxes that were paid during the last three years by that particular employer. New employers are charged a base rate. Businesses that experience a higher percentage of layoffs, such as construction, are assessed a higher rate compared to businesses that do not have as many layoffs. The rate decreased because an increase in Pennsylvania's Trust Fund (a component of the overall Fund) balance tripped a statutory solvency 'trigger' causing the employer tax rate to decrease. Currently the average tax rate is on a downward trend, which is why less revenues are reported year-over-year.

Expenses for unemployment compensation benefit claims increased by \$214 million during the fiscal year. The average monthly benefit payment during the current fiscal year increased by almost \$16.00, the number of claims filed increased (almost 6% for initial claims) and initial claims benefits increased about 4.6%. Expenses change more quickly based on economic conditions than UC revenues. The revenues factors, above, 'lag' current, existing employment conditions. The combination of lower current year revenues and higher current year expenses caused a \$321 million decrease in the year-over-year change in net assets.

State Workers' Insurance Fund (December 31, 2007)

Condensed, comparative, financial statement information for the State Workers' Insurance Fund (SWIF) is as follows (amounts in millions):

Description	2007		2006		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 551	23%	\$ 804	\$ (253)	-31%	
Long-term investments.....	1,734	72%	1,686	48	3%	
Other assets.....	108	5%	128	(20)	-16%	
Total assets.....	2,393	100%	2,618	(225)	-9%	
Securities lending obligations.....	465	20%	684	(219)	-32%	
Unearned revenue.....	120	5%	156	(36)	-23%	
Insurance loss liability.....	1,691	73%	1,523	168	11%	
Other liabilities.....	26	1%	72	(46)	-64%	
Total liabilities.....	2,302	100%	2,435	(133)	-5%	
Net assets.....	\$ 91	100%	\$ 183	\$ (92)	-50%	
Sales and services.....	\$ 384	105%	\$ 374	\$ 10	3%	
Provision for uncollectible accounts.....	(19)	-5%	(13)	(6)	46%	
Total operating revenues.....	365	100%	361	4	1%	
Cost of sales and services.....	592	100%	536	56	10%	
Total operating expenses.....	592	100%	536	56	10%	
Operating loss.....	(227)		(175)	(52)	30%	
Investment income.....	140		87	53	61%	
(Investment expense).....	(5)		(5)	-	0%	
Net nonoperating revenue.....	135		82	53	65%	
Decrease in net assets.....	\$ (92)		\$ (93)	\$ 1		

During calendar year 2007, reported year over year premium revenue (sales and services) increased from \$374 million to \$384 million, primarily due to unearned 2006 premiums which became earned premiums in 2007. A review of application statistics shows that new applications decreased by 6 percent from 2006 (16,607 vs. 17,603) and renewal applications decreased 2 percent (40,722 vs. 41,485). Private insurance carriers continue to occupy a greater portion of the market, and a continuing decline in applications for SWIF coverage is expected. Cash and short-term investments (excluding changes in securities lending) decreased due to a decrease in short-term bonds held at year end 2007 vs. 2006. Long-term investments increased as a result of unrealized gains due to higher year-over-year market values. Other assets include decreases in receivables (resulting from decreased business) and security sales proceeds receivable. In 2007, the Fund had a significant savings in loss reserves as a result of the Compromise and Release Initiative, which enabled SWIF to identify claims that meet requirements for settlement. The initiative increased settled claims from 952 in 2006 to 1,297 for 2007. Removing the loss reserves associated with these settled claims reduced insurance loss liability and cost of sales and services by \$52.3 million in 2007 and \$38.7 million in 2006. Nevertheless, overall insurance loss liability and current year losses increased as a result of actuarial adjustments for an increase to the medical liabilities, as well as a change in the payout pattern of loss payments. Investment income increased by 61 percent from 2006 due to an increase of \$14 million in realized gains on sales of investments and an increase of \$38 million in unrealized gains.

State Lottery Fund

Condensed, comparative, financial statement information for the State Lottery Fund is as follows (amounts in millions):

Description	2008		2007		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 646	90%	\$ 764	\$ (118)	-15%	
Long-term investments.....	7	1%	8	(1)	-13%	
Other assets.....	61	9%	65	(4)	-6%	
Total assets.....	714	100%	837	(123)	-15%	
Accounts payable.....	416	72%	370	46	12%	
Securities lending obligations.....	141	24%	88	53	60%	
Other liabilities.....	22	4%	31	(9)	-29%	
Total liabilities.....	579	100%	489	90	18%	
Net assets.....	\$ 135	100%	\$ 348	\$ (213)	-61%	
Sales and services.....	\$ 3,101	97%	\$ 3,076	\$ 25	1%	
Other revenues.....	99	3%	79	20	25%	
Total operating revenues.....	3,200	100%	3,155	45	1%	
Cost of sales and services.....	3,052	97%	3,014	38	1%	
Other expenses.....	107	3%	87	20	23%	
Total operating expenses.....	3,159	100%	3,101	58	2%	
Operating income.....	41		54	(13)	-24%	
Nonoperating revenues.....	4		40	(36)	-90%	
Income before transfers.....	45		94	(49)	-52%	
Transfers in.....	100		100	-	0%	
Transfers out.....	(358)		(204)	(154)	75%	
Transfers, net.....	(258)		(104)	(154)	148%	
Decrease in net assets.....	\$ (213)		\$ (10)	\$ (203)		

During the fiscal year ended June 30, 2008, the Lottery Fund experienced a one percent year-over-year increase in overall sales (\$25 million) that was primarily attributable to increased Powerball/Powerplay sales of \$30 million, the result of a large jackpot that was won in August 2007. The increase was offset by declines in other online sales, primarily the Match 6 game. The decrease in cash and investments of \$118 million was primarily the result of increased transfers to other Funds. This is described in the following paragraph.

During the current fiscal year transfers to other Funds increased by \$154 million. This was a result of a \$74.4 million increase in Lottery Fund resources needed to support the PACE Program (pharmaceutical benefits for the elderly) Fund due to increases in utilization and number of enrollees. Also, as a result of Act 44 of 2007, the Public Transportation Trust Fund (PTTF) was established to provide additional funding for public transportation in the Commonwealth. A portion of PTTF funding was provided by the Lottery Fund to finance expenditures associated with the *Shared Ride* and *Free Transit* programs for older Pennsylvanians. During the current fiscal year \$80 million was transferred to PTTF. The funding was ultimately disbursed as grants to public transit agencies.

During current fiscal year cost of sales and services increased by \$38 million. This is due in part to the change in the source of funding for the Department of Aging's *General Government Operations* and *Family Caregiver Program* appropriations from the General Fund to the Lottery Fund. The increase is also attributable to the expansion of the Property Tax Rent Rebate (PTRR) program, administered by the Department of Revenue. The program was significantly expanded by Act 1 of Special Session 1 of 2006. The Act expanded both the population of citizens who are eligible for the rebate and the dollar amount of the rebate.

Increases in other revenues and expenditures related to the PennCARE program, which provides home long-term care services to the elderly in an effort to delay or avoid institutionalization. The Title III appropriations comprise the Federal portion of this program. Because a relatively large percentage of residents in the Commonwealth are elderly, there is an increased need for these services.

Tuition Payment Fund

Condensed, comparative, financial statement information for the Tuition Payment Fund is as follows (amounts in millions):

Description	2008		2007		Increase (Decrease)	
	Amount	Percent	Amount	Amount	Percent	
Cash and short-term investments.....	\$ 428	29%	\$ 297	\$ 131	44%	
Long-term investments.....	1,050	70%	1,153	(103)	-9%	
Other assets.....	15	1%	4	11	275%	
Total assets.....	1,493	100%	1,454	39	3%	
Securities lending obligations.....	238	15%	155	83	54%	
Tuition benefits payable.....	1,322	84%	1,231	91	7%	
Other liabilities.....	7	0%	10	(3)	-30%	
Total liabilities.....	1,567	100%	1,396	171	12%	
Net assets.....	\$ (74)	100%	\$ 58	\$ (132)	228%	
Sales and services.....	138	100%	151	(13)	-9%	
Total operating revenues.....	138	100%	151	(13)	-9%	
Cost of sales and services.....	220	100%	268	(48)	-18%	
Total operating expenses.....	220	100%	268	(48)	-18%	
Operating loss.....	(82)		(117)	35	-30%	
Nonoperating revenues.....	(50)		169	(219)	-130%	
Increase(decrease) in net assets.....	\$ (132)		\$ 52	\$ (184)		

Current fiscal year operating revenues were \$12.8 million less than prior fiscal year operating revenues due primarily to decreases in tuition credit purchases of \$13.9 million. Current fiscal year operating expenses were \$48 million less than prior fiscal year operating expenses. Decreases in tuition benefit expenses of \$42.6 million constituted the majority of the year-over-year decrease. Actual payments to educational institutions increased by \$19.4 million, to \$114 million, during the current year as 11,490 beneficiaries used 270,448 credits in the current years versus 10,047 beneficiaries using 240,002 credits during the prior year. Net investment income, reported as a component of nonoperating revenues, decreased by over \$215 million from the prior fiscal year primarily because of lower investment valuations at June 30, 2008 versus June 30, 2007 and lower investment income earned on debt securities due to lower interest rates during the current fiscal year.

Capital asset activity during the fiscal year ended June 30, 2008

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund financial statements, expenditures for capital assets are typically reported as capital outlay. Funding for a significant portion of capital asset acquisition is provided by proceeds of general obligation bonds issued; such proceeds are generally accounted for in the capital projects funds in the governmental fund financial statements as an other financing source. In the government-wide statements, bond proceeds are reported as additions to long-term bond liabilities and completed project expenditures and construction in progress at fiscal year end are reported as part of general capital assets. Construction in progress for Department of General Services (public works) and Department of Transportation (highway and bridge) projects at June 30, 2008 amounted to \$0.5 and \$1.8 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2008 totaled \$56.3 billion.

General capital assets of the Commonwealth are those used in the performance of specific governmental functions during more than one fiscal year. Capital assets of the proprietary funds are reported in both proprietary fund financial statements and in government-wide financial statements. Fiduciary fund capital assets are reported in fiduciary fund financial statements; fiduciary funds are not included in government-wide statements. General capital assets as of June 30, 2008 amounted to \$25.0 billion at actual or estimated historical cost, net of accumulated depreciation of \$13.6 billion. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of "using up" capital assets over their estimated useful lives. This treatment differs from reporting capital outlay as current year expenditures by governmental fund types. Highway and bridge infrastructure assets are typically funded with Motor License Fund taxes, license and registration fees and Federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in its financial statements; a portion of such expenditures is reported as additions to capital assets in

government-wide financial statements. Depreciation of highway and bridge infrastructure assets is not related to the quality or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of "using up" the assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset's cost over its estimated useful life and is reported in the government-wide financial statements. Note E to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2008.

Long-term debt activity during the fiscal year ended June 30, 2008

The constitution of the Commonwealth of Pennsylvania permits the incurrence of debt, without approval of the electorate, for capital projects specifically authorized in a capital budget. Capital project debt outstanding cannot exceed one and three quarters (1.75) times the average of the annual tax revenues deposited in all Funds during the previous five fiscal years. The certified constitutional debt limit at August 31, 2008 was \$54.4 billion. Outstanding capital project debt at August 31, 2008 amounted to \$7.1 billion, for a remaining legal debt margin of \$47.3 billion. In addition to constitutionally authorized capital project debt, the Commonwealth may incur debt for electorate-approved programs, such as economic revitalization, land and water development, water facilities restoration, and certain environmental initiatives; and for special purposes approved by the General Assembly, such as disaster relief.

Total general obligation bond indebtedness outstanding at June 30, 2008 was \$8.632 billion. Total debt service fund transfers paid from General Fund and Motor License Fund appropriations to make principal and interest payments to bondholders during the fiscal year ended June 30, 2008 amounted to \$870.7 million and \$41.7 million, respectively. The table that follows shows total outstanding long-term indebtedness for general obligation bonds at the end of the eight most recent fiscal years (expressed in billions).

<u>At June 30</u>	<u>Outstanding Bond Indebtedness</u>
2001	\$ 5.545
2002	6.072
2003	7.031
2004	7.225
2005	7.151
2006	7.658
2007	8.246
2008	8.632

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2008.

Debt administration – fiscal year ending June 30, 2009

During the fiscal year ending June 30, 2009, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,048 million, an increase of \$135 million as compared to actual bond issuances of \$913 million, excluding refundings, during the fiscal year ended June 30, 2008. This plan reflects the need to make continued investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation. Additionally, a significant portion of the projected issuances for the 2009 fiscal year is attributable to two major environmental programs which would target capital improvements to water supply and sewage treatment facilities associated with economic development as well as general environmental capital improvement projects. Debt principal retirements of \$598.8 million are currently planned for the fiscal year ending June 30, 2009.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs. During the fiscal year ended June 30, 2008, the Commonwealth closed two refunding bond issuances that together refunded \$198.7 million of outstanding bonds and will produce \$7.9 million of interest savings over the remaining life of those bonds. As market conditions provide additional opportunities, the Commonwealth may pursue additional refundings.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor

License Fund. They may not exceed 20 percent of the those Funds' estimated revenues for the fiscal year and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued tax anticipation notes during the past 11 fiscal years and has no plans to issue any during the 2009 fiscal year. There were no changes in credit ratings, and there were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2008 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2009.

Legislative changes during fiscal year 2008-2009

During the fiscal year that began July 1, 2008, the legislature approved several new laws which are expected to change the Commonwealth's financial position in the future.

Act 1 of Special Session 1, signed July 9, 2008 authorizes the Commonwealth Financing Authority, a discretely presented component unit, to incur up to \$500 million in indebtedness for a variety of alternative energy development programs.

Act 64, signed July 9, 2008 establishes the Water and Sewer Systems Assistance program, to be administered by the Pennsylvania Infrastructure Investment Authority, a discretely presented component unit. Act 64 provides for grants and loans to municipalities and public utilities for the acquisition, repair, construction, reconstruction, rehabilitation, extension, expansion and improvement of water supply and sewage treatment systems. Also, Act 64 provided for a voter referendum question (on the November 4, 2008 general election ballot) to approve the incurrence of \$400 million in indebtedness to finance Act 64 programs.

Act 61, signed July 9, 2008 provides omnibus budget amendments to the Public School Code and, among other things, changes the basic education funding formula used to appropriate Commonwealth funding to the Commonwealth's 501 local school districts. Act 61 provides a \$275 million funding increase over the fiscal year ended June 30, 2008 funding amount.

General Fund fiscal year 2008-2009 budget

The adopted General Fund budget for the fiscal year ending June 30, 2009 provides appropriations totaling \$28.3 billion of Commonwealth (excluding Federal) funds with estimated revenues, net of tax refunds and proposed tax reductions of \$27.7 billion. The \$0.6 billion difference between estimated revenues and budgeted appropriations will be financed using the anticipated \$0.6 billion beginning fund balance.

The General Fund's fiscal year 2009 enacted budget increases General Fund expenditures by \$1.3 billion, or 4.8 percent. Major increases include public welfare funding at \$801.2 million or 8.5 percent and education funding at \$358.7 million, or 3.1 percent. In public welfare, medical assistance funding is increased \$270.5 million or 6.6% and long term living funding, including both institutional and community-based services, increased by \$245.6 million or 29 percent. In addition, child care funding is increased by \$51.2 million or 14.9 percent and the county child welfare funding increased \$67.2 million or 6.8 percent.

In education, the Basic Education appropriation is increased \$274.7 million or 5.5 percent and Special Education funding is increased by \$32.3 million or 2.4 percent. The Pre-K Counts program to expand early learning opportunities increases by \$11.4 million or 15.2% to \$86.4 million.

The Cover All Kids program, providing the third year of expanded access to affordable health care for uninsured children, funds an enrollment increase of 11 percent at a cost increase of \$21 million.

Funding for administration of state government maintains efficient and effective operations at minimal increases, totaling just 1.7 percent more than the 2002-03 costs. Cost reductions in the General Fund include non-recurring funding for certain grant programs and disasters.

General Fund fiscal year 2008-2009 revenue collections

For the five months ended November 30, 2008 General Fund revenue collections amounted to \$9,048.7 million, which were nearly \$658 million, or 6.8 percent, below the Official Revenue Estimate of \$9,706.6 million for the five-month period. Fiscal

year-to-date revenue collections were over \$409 million less than prior fiscal year revenues collected during the same period (\$9,458.2 million), a decrease of 4.3 percent. The Revenue Department's November 2008 Monthly Revenue Report is available at <http://www.revenue.state.pa.us/revenue/cwp/view.asp?A=246&Q=282166>.

In September 2008 agencies were directed to maintain current complement levels and not fill vacant positions; cease all out-of-state travel and the purchase of new vehicles for the Commonwealth fleet. Nearly all agencies were directed to reduce current year expenditures by up to 4.25 percent. In November agencies were directed to refrain from 1) purchasing non-essential goods or services and 2) requesting expedited or advance payments unless doing otherwise would create a significant emergency.

Fiscal Year 2008-2009 Investment Valuation and Investment Income

During the fiscal year ended June 30, 2008 the Treasury Department conducted an evaluation of its investment portfolio allocations within the types of investments, consistent with its longstanding investment objective of safety as its first and highest priority. The result was a re-allocation of investment types and investment durations. During the fiscal year ended June 30, 2008 the Treasury Department's Common Investment Pool's overall, total return was essentially flat, compared to the prior fiscal year. Further, during the five months ended November 30, 2008 investment security valuations broadly decreased from comparable June 30, 2008 reported valuations. Such decreases had the most effect on equity securities but such decreases affected almost all types of investments owned by the Commonwealth. A variety of Commonwealth Funds have reported realized losses as part of investment income as a result of redeeming their allocated shares of the Common Investment Pool at net asset value of shares less than the average cost of shares at the time such shares of the Common Investment Pool were purchased. An October 31, 2008 statement from the Treasury Department is available at <http://www.patreasury.org/press/067-2008.htm>.

Specific investing organizations outside the Treasury Department, identified in Note D to the financial statements, have specific investment authority to manage a portion of their own investment portfolios and, in some instances, reported lower or negative investment income during the fiscal year ended June 30, 2008, in comparison to the prior fiscal year. Through November 30, 2008 several such organizations owning longer-term investments or owning more equity investments than the Common Investment Pool have reported realized and unrealized losses as part of their investment income.

A statement and summary from the State Employees' Retirement System about its investment performance during calendar year 2008 is available at <http://www.sers.state.pa.us/sers/cwp/view.asp?a=236&q=284133#1>. Also, a November 25, 2008 release from the Public School Employees' Retirement System about its investment performance during its 2008-2009 fiscal year is available at <http://www.psers.state.pa.us/invest/invest.htm>.

Management's discussion and analysis is intended to enhance the reader's understanding of the basic financial statements, which immediately follow. This supplementary information should be read in conjunction with the government-wide financial statements, the fund financial statements and the notes to financial statements.

Basic Financial Statements

-Pennsylvania Symbols-

"State Seal"



The State Seal is the symbol used by the Commonwealth to authenticate certain documents. It is impressed upon the document by an instrument known as a seal-press or stamp. The State Seal has two faces: the obverse, which is the more familiar face and the one most often referred to as the "State Seal," and the reverse, or counter-seal, which is used less frequently. The State Seal is in the custody of the Secretary of the Commonwealth. When Pennsylvania was still a province of England, its seals were those of William Penn and his descendants. The transition from this provincial seal to a state seal began when the State Constitutional Convention of 1776 directed that "all commissions shall be . . . sealed with the State Seal," and appointed a committee to prepare such a seal for future use. By 1778, there was in use a seal similar to the present one. The seal received legal recognition from the General Assembly in 1791, when it was designated the official State Seal.

The obverse of the seal contains a shield upon which are emblazoned a sailing ship, a plough, and three sheaves of wheat. To the left of the shield is a stalk of Indian corn; to the right, an olive branch. The shield's crest is an eagle, and the entire design is encircled by the inscription "Seal of the State of Pennsylvania." These three symbols, the plough, ship, and sheaves of wheat, have despite minor changes through the years remained the traditional emblems of Pennsylvania's State Seal. They were first found in the individual seals of several colonial Pennsylvania counties which mounted their own identifying crests above the existing Penn Coat of Arms. Chester County's crest was a plough; Philadelphia County's crest was a ship under full sail; Sussex County, Delaware (then a part of provincial Pennsylvania) used a sheaf of wheat as its crest. The shield of the City of Philadelphia contained both a sheaf of wheat and a ship under sail. It was a combination of these sources that provided the three emblems now forming the obverse of the State Seal. The reverse of this first seal shows a woman who represents liberty. Her left hand holds a wand topped by a liberty cap, a French symbol of liberty. In her right hand is a drawn sword. She is trampling upon Tyranny, represented by a lion. The entire design is encircled by the legend "Both Can't Survive."

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us).

- THIS PAGE INTENTIONALLY LEFT BLANK -

Government-Wide Financial Statements

-Pennsylvania Symbols- *"Coat of Arms"*



Pennsylvania's Coat of Arms, while not used in the same official capacity as the State Seal (although it contains the emblems of the seal), is perhaps a more familiar symbol of the Commonwealth of Pennsylvania. It appears on countless documents, letterheads, and publications, and forms the design on Pennsylvania's State Flag (shown above). Provincial Pennsylvania's coat of arms was that of the Penn family. A state coat of arms first appeared on state paper money issued in 1777. This first coat of arms was nearly identical to the State Seal, without the inscription. In 1778, Caleb Lowmes of Philadelphia prepared a coat of arms. Heraldic in design, it consisted of: a shield, which displayed the emblems of the State Seal --- the ship, plough, and sheaves of wheat; an eagle for the crest; two black horses as supporters; and the motto "Virtue, Liberty and Independence." An olive branch and a cornstalk were crossed below the shield. Behind each horse was a stalk of corn, but these were omitted after 1805.

Numerous modifications were made to this coat of arms between 1778 and 1873, chiefly in the position and color of the supporting horses. In 1874, the legislature noted these variations and the lack of uniformity and appointed a commission to establish an official coat of arms for the Commonwealth. In 1875, the commission reported that it had adopted, almost unchanged, the coat of arms originally designed by Caleb Lowmes ninety-six years earlier. This is the coat of arms in use today.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Commonwealth of Pennsylvania

Statement of Net Assets

June 30, 2008

(Amounts in thousands)

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash—Note D.....	\$ 89,430	\$ 45,271	\$ 134,701	\$ 1,341,179
Cash with fiscal agents—Note D.....	-	1,719,203	1,719,203	-
Temporary investments—Note D.....	13,255,167	2,144,771	15,399,938	2,218,866
Receivables (net):				
Taxes—Note G.....	2,441,095	-	2,441,095	-
Unemployment assessments.....	-	466,328	466,328	-
Accounts.....	767,799	220,695	988,494	191,195
Accrued interest.....	18,191	47,443	65,634	268,068
Loans—Note G.....	6,332	53,385	59,717	1,472,526
Lease rentals—Note G.....	553	-	553	3,461
Investment sale proceeds.....	33,295	11,574	44,869	-
Other.....	29,577	13	29,590	48,903
Due from pension trust funds—Note H.....	4,456	75	4,531	-
Due from primary government—Note H.....	-	-	-	10,001
Due from component units—Note H.....	16,152	385	16,537	106
Due from Federal government.....	2,004,672	6,220	2,010,892	98,720
Due from political subdivisions.....	9,843	7,662	17,505	-
Due from other governments.....	23	33,436	33,459	39
Inventory.....	92,391	200,123	292,514	30,416
Prepaid and deferred expenses.....	-	5	5	35,892
Other assets.....	3,002	16,694	19,696	165,992
Total current assets.....	18,771,978	4,973,283	23,745,261	5,885,364
Noncurrent assets:				
Long-term investments—Note D.....	1,185,174	2,790,895	3,976,069	1,855,276
Receivables (net):				
Taxes—Note G.....	1,351,447	-	1,351,447	-
Loans—Note G.....	75,652	255,382	331,034	17,283,930
Lease rentals—Note G.....	-	-	-	5,062
Due from component units—Note H.....	88,163	-	88,163	-
Non-depreciable capital assets—Note E:				
Land.....	2,127,190	323	2,127,513	236,811
Construction in progress.....	2,311,604	5,563	2,317,167	1,725,291
Depreciable capital assets—Note E:				
Land improvements.....	508,373	-	508,373	242,912
Buildings and building improvements.....	5,697,921	40,097	5,738,018	2,584,189
Machinery and equipment.....	860,056	133,507	993,563	840,040
Turnpike infrastructure.....	-	-	-	4,613,052
Highway infrastructure.....	19,296,783	-	19,296,783	-
Bridge infrastructure.....	7,829,509	-	7,829,509	-
Waterway infrastructure.....	22,053	-	22,053	-
Infrastructure-other.....	103,552	-	103,552	-
Library books.....	-	-	-	83,154
Other capital assets.....	-	-	-	60,589
Less: accumulated depreciation.....	(13,705,715)	(100,883)	(13,806,598)	(4,571,708)
Net depreciable capital assets.....	20,612,532	72,721	20,685,253	3,852,228
Other assets.....	-	-	-	291,330
Total non-current assets.....	27,751,762	3,124,884	30,876,646	25,249,928
TOTAL ASSETS.....	\$ 46,523,740	\$ 8,098,167	\$ 54,621,907	\$ 31,135,292

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania

Statement of Net Assets

June 30, 2008

(Amounts in thousands)

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 5,255,997	\$ 653,517	\$ 5,909,514	\$ 410,548
Investment purchases payable.....	46,591	-	46,591	-
Tax refunds payable.....	750,743	-	750,743	-
Tuition benefits payable—Note F.....	-	183,153	183,153	-
Securities lending obligations.....	2,612,452	955,728	3,568,180	124,160
Internal balances—Note H.....	(88,523)	87,694	(829)	-
Due to pension trust funds—Note H.....	10,621	216	10,837	-
Due to primary government—Note H.....	-	-	-	11,546
Due to component units—Note H.....	8,161	-	8,161	106
Due to political subdivisions.....	1,124,265	159	1,124,424	125
Due to other governments.....	59,094	7,001	66,095	-
Interest payable.....	148,535	-	148,535	183,048
Unearned revenue.....	75,648	133,935	209,583	76,135
Notes payable—Note J.....	-	-	-	1,084,407
General obligation bonds payable—Note K.....	602,807	-	602,807	-
Bonds payable—Note K.....	-	-	-	34,228
Revenue bonds payable—Note K.....	-	-	-	222,255
Capital lease/installment purchase obligations—Note F, K..	-	5,939	5,939	-
Self insurance liabilities—Note M.....	161,413	5,186	166,599	2,121
Compensated absence liability—Notes F, K.....	102,657	4,462	107,119	24,105
Insurance loss liability-Note F.....	-	336,823	336,823	-
Other financing obligations—Note J.....	8,000	-	8,000	100,043
Other liabilities-Note K.....	105,636	15,037	120,673	406,095
Total current liabilities.....	10,984,097	2,388,850	13,372,947	2,678,922
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	1,138,842	1,138,842	-
Due to primary government—Note H.....	-	-	-	88,163
Unearned revenue.....	-	-	-	5,045
Demand revenue bonds payable—Note J.....	-	-	-	9,489,975
Insurance loss liability—Note F.....	-	1,354,774	1,354,774	-
Notes payable—Note J.....	-	-	-	1,567,401
General obligation bonds payable—Note K.....	8,029,802	-	8,029,802	-
Bonds payable—Note K.....	-	-	-	602,642
Revenue bonds payable—Note K.....	-	-	-	9,743,788
Capital lease/installment purchase obligations—Notes F, K.	37,646	-	37,646	-
Other financing obligations—Note J.....	62,500	-	62,500	138,364
Compensated absence liability—Note F, K.....	621,726	30,980	652,706	106,417
Self insurance liabilities—Note M.....	577,869	18,807	596,676	20,149
Other liabilities—Note K.....	631,427	-	631,427	970,375
Total non-current liabilities.....	9,960,970	2,543,403	12,504,373	22,732,319
TOTAL LIABILITIES.....	20,945,067	4,932,253	25,877,320	25,411,241
NET ASSETS—Note C				
Invested in capital assets, net of related debt.....	21,482,118	72,668	21,554,786	1,115,434
Restricted for:				
Smoking cessation and other health-related programs....	1,410,932	1,942	1,412,874	4,300
Transportation.....	1,520,801	103,274	1,624,075	260,486
Capital projects.....	-	-	-	2,562,372
Debt service.....	27,458	-	27,458	347,394
Unemployment/worker's compensation.....	120,181	2,378,092	2,498,273	-
Elderly programs.....	38,264	124,351	162,615	-
Environmental and conservation programs.....	457,726	-	457,726	-
Economic stimulus.....	22,530	299,924	322,454	83,264
Gaming licensing/regulation.....	947,145	-	947,145	-
Correctional industries and procurement.....	46,541	-	46,541	-
Emergency support.....	58,063	132,837	190,900	-
Higher education.....	7,023	-	7,023	496,090
Other purposes.....	88,580	126,799	215,379	679,155
Unrestricted/(Deficit).....	(648,689)	(73,973)	(722,662)	175,556
TOTAL NET ASSETS.....	\$ 25,578,673	\$ 3,165,914	\$ 28,744,587	\$ 5,724,051

Commonwealth of Pennsylvania
Statement of Activities
For the Fiscal Year Ended June 30, 2008
(Amounts in thousands)

(Amounts in thousands)		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units	
					Governmental Activities	Business-Type Activities		Total
Primary government:								
Governmental activities:								
Direction and supportive services.....	\$ 1,479,962	\$ 143,933	\$ 37,179	\$ -	\$ (1,298,850)	\$ -	\$ (1,298,850)	\$ -
Protection of persons and property.....	4,922,684	1,214,038	750,851	823	(2,956,972)	-	(2,956,972)	-
Public education.....	13,107,648	17,641	1,666,035	-	(11,423,972)	-	(11,423,972)	-
Health and human services.....	25,215,388	1,800,212	12,591,954	-	(10,823,222)	-	(10,823,222)	-
Economic development.....	1,720,992	11,379	625,073	-	(1,084,540)	-	(1,084,540)	-
Transportation.....	4,182,916	945,536	2,221,732	3,517	(1,012,131)	-	(1,012,131)	-
Recreation and cultural enrichment.....	571,009	162,013	43,869	270	(364,857)	-	(364,857)	-
Interest.....	371,249	-	-	-	(371,249)	-	(371,249)	-
Total governmental activities.....	51,571,848	4,294,752	17,936,693	4,610	(29,335,793)	-	(29,335,793)	-
Business-type activities:								
State lottery.....	3,157,593	3,100,962	102,411	-	-	45,780	45,780	-
State workers' insurance.....	616,256	384,301	139,635	-	-	(92,320)	(92,320)	-
Tuition payment.....	224,791	138,361	(45,955)	-	-	(132,385)	(132,385)	-
Unemployment compensation.....	2,289,977	2,061,780	153,246	-	-	(74,951)	(74,951)	-
Liquor control.....	1,318,503	1,428,638	335	-	-	110,470	110,470	-
Economic development and other.....	3,148	20,149	1,220	-	-	18,221	18,221	-
Total business-type activities.....	7,610,268	7,134,191	350,892	-	-	(125,185)	(125,185)	-
Total primary government.....	<u>\$ 59,182,116</u>	<u>\$ 11,428,943</u>	<u>\$ 18,287,585</u>	<u>\$ 4,610</u>	<u>(29,335,793)</u>	<u>(125,185)</u>	<u>(29,460,978)</u>	<u>-</u>
Component units:								
Total component units.....	<u>\$ 5,851,716</u>	<u>\$ 2,844,689</u>	<u>\$ 2,128,026</u>	<u>\$ 195,538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(683,463)</u>
General revenues:								
Taxes:								
Personal income.....					10,438,976	-	10,438,976	-
Sales and use.....					8,779,768	-	8,779,768	-
Corporation.....					5,157,589	-	5,157,589	-
Liquid fuels and motor carriers.....					2,024,045	-	2,024,045	60,592
Gaming.....					769,064	-	769,064	-
Inheritance.....					802,865	-	802,865	-
Cigarette.....					1,026,125	-	1,026,125	-
Real estate.....					500,786	-	500,786	-
Other.....					592,744	-	592,744	-
Total taxes.....					30,091,962	-	30,091,962	60,592
Investment income.....					128,722	-	128,722	-
Total general revenues.....					30,220,684	-	30,220,684	60,592
Transfers—Note H.....					296,931	(296,931)	-	-
Net general revenues and transfers.....					30,517,615	(296,931)	30,220,684	60,592
Change in net assets.....					1,181,822	(422,116)	759,706	(622,871)
Net assets, July 1, 2007 (restated)—Note B.....					24,396,851	3,588,030	27,984,881	6,346,922
Net assets, June 30, 2008—Note C.....					\$ 25,578,673	\$ 3,165,914	\$ 28,744,587	\$ 5,724,051

- The notes to the financial statements are an integral part of this statement. -

Fund Financial Statements

-Pennsylvania Symbols-

"State Flag"



Pennsylvania's State Flag (shown here below the United States' flag) is composed of a blue field on which is embroidered the State Coat of Arms. The flag is flown from all state buildings, and further display on any public building within the Commonwealth is provided for by law. The first State Flag bearing the State Coat of Arms was authorized by the General Assembly in 1799. During the Civil War, many Pennsylvania regiments carried flags modeled after the U.S. Flag, but substituted Pennsylvania's Coat of Arms for the field of stars. An act of the General Assembly of June 13, 1907, standardized the flag and required that the blue field match the blue of Old Glory.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Photo courtesy of the Pennsylvania Department of General Services (www.dgs.state.pa.us)

Commonwealth of Pennsylvania

Balance Sheet

Governmental Funds

June 30, 2008

(Amounts in thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
ASSETS					
Assets:					
Cash—Note D.....	\$ 59,354	\$ 5,791	\$ -	\$ 19,376	\$ 84,521
Temporary investments—Note D.....	6,620,405	2,294,065	692,134	3,575,459	13,182,063
Long-term investments—Note D.....	-	-	726,845	458,329	1,185,174
Receivables, net:					
Taxes—Note G.....	3,600,795	165,247	-	26,500	3,792,542
Accounts.....	193,258	20,817	240,837	25,415	480,327
Accrued interest.....	3,872	8	5,728	8,582	18,190
Loans—Note G.....	8,358	-	-	73,628	81,986
Lease rentals—Note G.....	-	-	-	553	553
Investment sale proceeds.....	-	-	30,127	3,168	33,295
Other.....	4	5,344	-	24,229	29,577
Due from other funds—Note H.....	37,205	438	3,305	72,103	113,051
Due from pension trust funds—Note H.....	1,506	247	-	-	1,753
Due from component units—Note H.....	742	-	-	10,447	11,189
Due from Federal government.....	1,840,344	168,289	65,024	21,548	2,095,205
Due from political subdivisions.....	6,539	1,604	-	1,700	9,843
Advances to other funds—Note H.....	114,108	-	-	3,000	117,108
Other assets.....	3,000	-	-	-	3,000
TOTAL ASSETS.....	\$ 12,489,490	\$ 2,661,850	\$ 1,764,000	\$ 4,324,037	\$ 21,239,377
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 4,090,131	\$ 473,860	\$ 140,665	\$ 439,090	\$ 5,143,746
Investment purchases payable.....	-	-	38,473	8,118	46,591
Tax refunds payable.....	749,024	1,719	-	-	750,743
Securities lending obligations.....	1,326,245	491,716	166,966	611,856	2,596,783
Due to other funds—Note H.....	92,314	30,421	7,070	4,684	134,489
Due to component units—Note H.....	2,236	5,624	-	301	8,161
Due to pension trust funds.....	8,160	2,256	-	181	10,597
Due to political subdivisions.....	980,423	36,118	12,256	95,468	1,124,265
Due to other governments.....	12,690	45,934	1	425	59,050
Unearned revenue.....	2,181,815	4,107	240,837	22,018	2,448,777
Advances from other funds—Note H.....	70,500	3,575	-	10,333	84,408
Other liabilities.....	1,851	-	-	-	1,851
TOTAL LIABILITIES.....	9,515,389	1,095,330	606,268	1,192,474	12,409,461
Fund balances:					
Reserved for:					
Encumbrances.....	568,678	670,338	466	1,386,811	2,626,293
Advances—Note C.....	114,108	-	-	3,000	117,108
Loans receivable.....	8,358	-	-	73,628	81,986
Budget Stabilization Reserve Fund.....	745,949	-	-	-	745,949
Other—Note C.....	1,148,218	5,242	795,311	139,710	2,088,481
Unreserved:					
Designated for:					
Capital projects.....	-	-	-	54,631	54,631
Debt service:					
Retirement of general obligation bonds.....	-	-	-	27,458	27,458
Highways.....	-	689,288	-	-	689,288
Other—Note C.....	379,169	-	-	9,341	388,510
Undesignated (deficit)-reported in:					
General Fund.....	9,621	-	-	-	9,621
Special Revenue Funds.....	-	201,652	361,955	2,066,670	2,630,277
Capital Projects Funds.....	-	-	-	(629,686)	(629,686)
TOTAL FUND BALANCES.....	2,974,101	1,566,520	1,157,732	3,131,563	8,829,916
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 12,489,490	\$ 2,661,850	\$ 1,764,000	\$ 4,324,037	\$ 21,239,377

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2008

(Amounts in thousands)

The governmental funds balance sheet reports total fund balance for all governmental funds. In the governmental activities column in the Statement of Net Assets, amounts are reported for all governmental funds and are adjusted to account for specific items that are treated differently on the Statement of Net Assets than on the governmental funds balance sheet. Under the modified accrual basis of accounting, numerous governmental assets are not reported because they may not be "available," (that is, they are not current financial resources) and, similarly, numerous governmental liabilities are not reported because they are not due and payable until after fiscal year end. The following reconciliation begins with total governmental funds fund balance and ends with total net assets for governmental activities. It includes all of the adjustments made to "convert" governmental fund information in the fund financial statements to governmental activities information in the Statement of Net Assets.

Total Fund Balances--Governmental Funds..... \$ 8,829,916

General capital assets used in governmental activities are not financial resources and are therefore not reported in the governmental funds balance sheet. (Refer to Note E.)

These assets consist of:

Land.....	\$ 2,127,184	
Land improvements.....	508,173	
Buildings and building improvements.....	5,692,696	
Machinery and equipment.....	753,489	
Infrastructure.....	27,251,897	
Construction in progress.....	2,311,604	
Accumulated depreciation.....	<u>(13,635,703)</u>	
Net general capital assets.....		25,009,340

Certain revenues are earned but not available at fiscal year-end and therefore are reported as unearned revenues in the governmental funds balance sheet 2,373,137

Certain receivables are not reported as governmental fund assets because they are not collected during the availability period under the modified accrual basis of accounting..... 287,014

Internal service funds are proprietary in nature and charge the costs of certain goods and services to governmental funds. Therefore, the assets and liabilities of the internal service funds are included in the Statement of Net Assets as governmental activities 88,527

The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 82,685

Certain general long-term liabilities are not due and payable at fiscal year-end and therefore are not reported in the governmental funds balance sheet. (Refer to Note K.)
These liabilities are:

Bonds payable.....	\$ (8,632,609)	
Accrued bond interest payable.....	(148,535)	
Capital lease and installment purchase obligations.....	(37,646)	
Compensated absence liability.....	(722,468)	
Self-insurance liabilities.....	(737,579)	
Other liabilities.....	<u>(813,109)</u>	
		<u>(11,091,946)</u>

Total Net Assets--Governmental Activities..... \$ 25,578,673

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
REVENUES:					
Taxes, net of refunds.....	\$ 26,390,658	\$ 2,024,045	\$ -	\$ 1,495,177	\$ 29,909,880
Licenses and fees.....	372,854	877,141	-	663,159	1,913,154
Intergovernmental.....	15,419,122	1,913,422	133,003	446,292	17,911,839
Charges for sales and services.....	1,384,136	111,367	-	146,434	1,641,937
Investment income.....	123,890	1,020	(34,524)	76,136	166,522
Lease rental principal and interest.....	-	-	-	99	99
Interest on notes and loans.....	124	-	-	1,157	1,281
Other.....	240,716	2,162	473,303	34,747	750,928
TOTAL REVENUES	43,931,500	4,929,157	571,782	2,863,201	52,295,640
EXPENDITURES:					
Current:					
Direction and supportive services.....	1,079,972	66,993	1	238,794	1,385,760
Protection of persons and property.....	3,546,365	647,014	164,825	503,159	4,861,363
Health and human services.....	24,317,283	-	442,993	381,560	25,141,836
Public education.....	12,994,517	867	-	80,924	13,076,308
Recreation and cultural enrichment.....	331,454	1,337	-	224,596	557,387
Economic development.....	1,122,067	-	9,082	590,485	1,721,634
Transportation.....	24,853	2,198,115	-	1,069,311	3,292,279
Capital outlay.....	19,496	1,793,459	-	460,335	2,273,290
Debt service:					
Principal retirement.....	-	-	-	555,337	555,337
Interest and fiscal charges.....	34	-	-	388,688	388,722
TOTAL EXPENDITURES	43,436,041	4,707,785	616,901	4,493,189	53,253,916
REVENUES OVER (UNDER)					
EXPENDITURES	495,459	221,372	(45,119)	(1,629,988)	(958,276)
OTHER FINANCING SOURCES (USES):					
Bonds issued.....	-	-	-	913,119	913,119
Refunding bonds issued.....	-	-	-	194,471	194,471
Premium on bonds/refunding bonds issued.....	-	-	-	61,277	61,277
Transfers in—Note H.....	119,514	11,204	2	1,484,218	1,614,938
Transfers out—Note H.....	(1,012,267)	(84,837)	(28,155)	(192,967)	(1,318,226)
Payment to refunded bond escrow agent.....	-	-	-	(203,633)	(203,633)
Capital lease and installment purchase obligations....	529	-	-	-	529
NET OTHER FINANCING					
SOURCES (USES)	(892,224)	(73,633)	(28,153)	2,256,485	1,262,475
NET CHANGE IN FUND BALANCES.....	(396,765)	147,739	(73,272)	626,497	304,199
FUND BALANCES, JULY 1, 2007.....	3,370,866	1,418,781	1,231,004	2,505,066	8,525,717
FUND BALANCES, JUNE 30, 2008.....	\$ 2,974,101	\$ 1,566,520	\$ 1,157,732	\$ 3,131,563	\$ 8,829,916

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statements of Activities**

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2008. Expenses such as depreciation and certain claims and judgments and revenues that may not be collected for several months after fiscal-year end are included in the government-wide statement but are not included in the governmental funds statement. This reconciliation reports all economic events during the fiscal year that appear on the government-wide Statement of Activities but are not included in the governmental funds statement.

Net change in total fund balances of governmental funds..... \$ 304,199

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds; however, in the government-wide statements capital outlays are reported as increases in capital assets (not expenses) and the cost of general capital assets is allocated over their estimated useful lives and reported as depreciation expense. All depreciation is reported as part of functional program expenses. (Refer to Note E) The current amounts were:

Capital asset acquisitions	\$ 2,222,275	
Depreciation expense.....	(1,068,686)	
Capital lease, installment purchase and related payments.....	<u>3,532</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,157,121

Bond proceeds provide current financial resources to governmental funds; however, issuing bonds increases general long-term liabilities in the statement of net assets. During the current fiscal year, proceeds were received from:

General obligation bonds, including a premium/discount of \$52,115.....	\$ (965,234)	
Refunding bonds, including a premium of \$9,162.....	<u>(203,633)</u>	
Total bond proceeds		(1,168,867)

Repayment of general long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces general long-term liabilities in the statement of net assets. During the current fiscal year, these amounts consisted of:

Bond principal retirement.....	\$ 555,337	
Payments to refunded bond escrow agent.....	<u>203,633</u>	
Total long-term debt repayment.....		758,970

Internal service funds charge the costs of certain goods and services to individual funds. The net loss of the internal service funds is reported as part of governmental activities expenses.....		14,696
--	--	--------

Certain tax and other revenues due by fiscal year end will not be collected for several months or years after fiscal year end; they are not considered available revenues in the governmental funds, but they are reported as revenues in the statement of activities.....		158,723
--	--	---------

Certain expense adjustments are reported in the statement of activities because they are due and payable and are funded with future economic resources rather than current available financial resources.....		<u>(43,020)</u>
---	--	-----------------

Net change in governmental net assets in the statement of activities..... \$ 1,181,822

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania

Statement of Net Assets

Proprietary Funds

June 30, 2008

(Amounts in thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2007)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
ASSETS							
Current assets:							
Cash—Note D.....	\$ 18,512	\$ 4,583	\$ 1,471	\$ 1,120	\$ 19,585	\$ 45,271	\$ 4,909
Cash with fiscal agents—Note D.....	1,719,203	-	-	-	-	1,719,203	-
Temporary investments—Note D.....	8,342	546,297	644,895	426,843	518,394	2,144,771	73,104
Receivables (net):							
Unemployment assessments.....	466,328	-	-	-	-	466,328	-
Accounts	95,477	94,073	26,111	-	5,034	220,695	2,484
Accrued interest.....	31,296	12,174	-	3,875	98	47,443	-
Loans—Note G.....	-	-	-	-	53,385	53,385	-
Investment sale proceeds.....	-	-	-	11,574	-	11,574	-
Other	-	-	13	-	-	13	-
Due from other funds—Note H.....	3,299	-	1	-	1,675	4,975	21,566
Due from pension trust funds—Note H.....	6	-	-	-	69	75	2,703
Due from component units—Note H.....	384	-	-	-	1	385	552
Due from Federal government.....	3,211	-	2,940	-	69	6,220	14
Due from political subdivisions.....	7,662	-	-	-	-	7,662	-
Due from other governments	33,436	-	-	-	-	33,436	23
Advances to other funds—Note H.....	-	-	-	-	1,400	1,400	-
Inventory.....	-	-	-	-	200,123	200,123	9,706
Prepaid expenses.....	-	-	-	-	5	5	-
Other assets.....	-	2,037	14,657	-	-	16,694	2
Total current assets	2,387,156	659,164	690,088	443,412	799,838	4,979,658	115,063
Noncurrent assets:							
Long-term investments—Note D.....	-	1,734,187	6,572	1,050,136	-	2,790,895	-
Receivables (net):							
Loans—Note G.....	-	-	-	-	255,382	255,382	-
Non-depreciable capital assets—Note E:							
Land.....	-	-	-	-	323	323	6
Construction in progress.....	-	-	-	-	5,563	5,563	-
Depreciable capital assets—Note E:							
Land improvements.....	-	-	-	-	-	-	200
Buildings and building improvements.....	-	-	-	-	40,097	40,097	5,225
Machinery and equipment.....	-	1,512	44,171	-	87,824	133,507	106,567
Less: accumulated depreciation	-	(785)	(26,759)	-	(73,339)	(100,883)	(70,012)
Net depreciable capital assets.....	-	727	17,412	-	54,582	72,721	41,980
Total noncurrent assets	-	1,734,914	23,984	1,050,136	315,850	3,124,884	41,986
TOTAL ASSETS	\$ 2,387,156	\$ 2,394,078	\$ 714,072	\$ 1,493,548	\$ 1,115,688	\$ 8,104,542	\$ 157,049

Commonwealth of Pennsylvania

Statement of Net Assets

Proprietary Funds

June 30, 2008

(Amounts in thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2007)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	\$ 91,487	\$ 6,418	\$ 415,689	\$ 7,603	\$ 132,320	\$ 653,517	\$ 34,354
Tuition benefits payable—Note F.....	-	-	-	183,153	-	183,153	-
Securities lending obligations.....	1,788	464,566	140,732	237,816	110,826	955,728	15,669
Due to other funds—Note H.....	7	-	334	6	3,904	4,251	505
Due to pension trust funds.....	-	-	24	-	192	216	24
Due to political subdivisions.....	-	-	135	-	24	159	-
Due to other governments.....	6,059	-	167	-	775	7,001	44
Unearned revenue.....	61	120,178	10,479	-	3,217	133,935	8
Capital lease/installment purchase obligations—Note F...	-	-	5,939	-	-	5,939	-
Self insurance—Note M.....	-	333	352	-	4,501	5,186	368
Compensated absences—Note F.....	-	375	406	-	3,681	4,462	249
Insurance loss liability—Note F.....	-	336,823	-	-	-	336,823	-
Advances from other funds—Note H.....	-	1,818	-	-	88,000	89,818	14,300
Other liabilities.....	-	15,037	-	-	-	15,037	-
Total current liabilities.....	99,402	945,548	574,257	428,578	347,440	2,395,225	65,521
Noncurrent liabilities:							
Tuition benefits payable—Note F.....	-	-	-	1,138,842	-	1,138,842	-
Insurance loss liability—Note F.....	-	1,354,428	-	-	346	1,354,774	-
Compensated absences—Note F.....	-	1,829	2,715	101	26,335	30,980	1,666
Self insurance—Note M.....	-	1,208	1,276	-	16,323	18,807	1,335
Total noncurrent liabilities.....	-	1,357,465	3,991	1,138,943	43,004	2,543,403	3,001
TOTAL LIABILITIES.....	99,402	2,303,013	578,248	1,567,521	390,444	4,938,628	68,522
NET ASSETS							
Invested in capital assets, net of related debt.....	-	727	11,473	-	60,468	72,668	41,986
Restricted for:							
Smoking cessation and other health-related programs.	-	-	-	-	1,942	1,942	-
Transportation.....	-	-	-	-	103,274	103,274	-
Unemployment/workers' compensation.....	2,287,754	90,338	-	-	-	2,378,092	-
Elderly programs.....	-	-	124,351	-	-	124,351	-
Economic stimulus.....	-	-	-	-	299,924	299,924	-
Correctional industries and procurement.....	-	-	-	-	-	-	46,541
Emergency support.....	-	-	-	-	132,837	132,837	-
Other purposes—Note C.....	-	-	-	-	126,799	126,799	-
Deficit.....	-	-	-	(73,973)	-	(73,973)	-
TOTAL NET ASSETS.....	\$ 2,287,754	\$ 91,065	\$ 135,824	\$ (73,973)	\$ 725,244	\$ 3,165,914	\$ 88,527

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30 2008

(Amounts in thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2007)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
OPERATING REVENUES:							
Sales and services.....	\$ 2,061,193	\$ 384,198	\$ 3,100,596	\$ 138,361	\$ 1,437,703	\$ 7,122,051	\$ 85,931
Interest on loans.....	-	-	-	-	9,121	9,121	-
Other.....	76,577	103	98,749	-	297	175,726	81
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	2,137,770	384,301	3,199,345	138,361	1,447,121	7,306,898	86,012
Provision for uncollectible accounts.....	-	(18,556)	-	-	8,306	(10,250)	-
NET OPERATING REVENUES.....	2,137,770	365,745	3,199,345	138,361	1,455,427	7,296,648	86,012
OPERATING EXPENSES:							
Cost of sales and services.....	2,289,977	592,722	3,051,255	220,428	1,322,145	7,476,527	60,511
Depreciation.....	-	176	7,951	-	7,812	15,939	11,615
Other.....	-	-	98,387	-	-	98,387	-
TOTAL OPERATING EXPENSES	2,289,977	592,898	3,157,593	220,428	1,329,957	7,590,853	72,126
OPERATING INCOME (LOSS).....	(152,207)	(227,153)	41,752	(82,067)	125,470	(294,205)	13,886
NONOPERATING REVENUES (EXPENSES):							
Investment income.....	77,256	139,635	1,461	(45,955)	1,555	173,952	591
Investment expense.....	-	(4,802)	-	(4,363)	-	(9,165)	-
Other revenues.....	-	-	2,567	-	1,666	4,233	-
NONOPERATING REVENUES, NET.....	77,256	134,833	4,028	(50,318)	3,221	169,020	591
INCOME (LOSS) BEFORE TRANSFERS.....	(74,951)	(92,320)	45,780	(132,385)	128,691	(125,185)	14,477
TRANSFERS:							
Transfers in—Note H.....	-	281	100,186	-	46,590	147,057	219
Transfers out—Note H.....	(3,500)	-	(358,420)	-	(82,068)	(443,988)	-
TRANSFERS, NET.....	(3,500)	281	(258,234)	-	(35,478)	(296,931)	219
INCREASE (DECREASE) IN NET ASSETS.....	(78,451)	(92,039)	(212,454)	(132,385)	93,213	(422,116)	14,696
TOTAL NET ASSETS, JULY 1, 2007.....	2,366,205	183,104	348,278	58,412	632,031	3,588,030	73,831
TOTAL NET ASSETS, JUNE 30, 2008.....	\$ 2,287,754	\$ 91,065	\$ 135,824	\$ (73,973)	\$ 725,244	\$ 3,165,914	\$ 88,527

- The notes to the financial statements are an integral part of this statement.

- THIS PAGE INTENTIONALLY LEFT BLANK -

Commonwealth of Pennsylvania
Statement of Cash Flows
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2008
 (Amounts in thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2007)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from employers.....	\$ 2,107,125	\$ 347,810	\$ -	\$ -	\$ -	\$ 2,454,935	\$ -
Receipts from customers.....	-	-	3,087,848	138,361	1,431,304	4,657,513	88,729
Receipts from borrowers.....	-	-	-	-	64,057	64,057	-
Receipt of premiums.....	-	-	-	-	6,973	6,973	-
Payments to programs for the elderly.....	-	-	(816,358)	-	-	(816,358)	-
Payments to prize winners.....	-	-	(1,668,933)	-	-	(1,668,933)	-
Payments to participants.....	-	-	-	(124,426)	-	(124,426)	-
Payments to claimants.....	(2,326,799)	(352,160)	-	-	(1,298)	(2,680,257)	-
Payments to borrowers.....	-	-	-	-	(71,201)	(71,201)	-
Payments for vendors, employees and other costs.....	-	(116,727)	(505,386)	(6,894)	(1,335,330)	(1,964,337)	(66,729)
Other receipts.....	76,024	103	698	202	2,136	79,163	51
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	(143,650)	(120,974)	97,869	7,243	96,641	(62,871)	22,051
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Net borrowings under advances from other funds.....	-	(2)	-	-	-	(2)	-
Net lendings under advances to other funds.....	-	-	-	-	(1,400)	(1,400)	-
Transfers in.....	-	281	100,186	-	46,590	147,057	219
Transfers out.....	(3,500)	-	(358,420)	-	(82,068)	(443,988)	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	(3,500)	279	(258,234)	-	(36,878)	(298,333)	219
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets.....	-	-	(546)	-	(20,477)	(21,023)	(11,483)
Disposition of capital assets.....	-	-	-	-	937	937	-
Capital lease payments	-	-	(11,436)	-	-	(11,436)	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	-	-	(11,982)	-	(19,540)	(31,522)	(11,483)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of investments.....	(8,367)	(1,352,793)	(1,470,225)	(2,250,637)	(1,028,192)	(6,110,214)	(346,679)
Sales and maturities of investments.....	5,851	1,619,115	1,577,042	2,129,629	910,332	6,241,969	324,645
Investment income.....	77,471	73,877	14,326	36,218	12,991	214,883	1,874
Investment expense.....	-	(4,802)	-	(4,363)	-	(9,165)	-
Change in securities lending obligations.....	1,115	(219,617)	52,469	82,778	65,046	(18,209)	9,986
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	76,070	115,780	173,612	(6,375)	(39,823)	319,264	(10,174)
NET INCREASE (DECREASE) IN CASH.....	(71,080)	(4,915)	1,265	868	400	(73,462)	613
CASH AT JULY 1, 2007.....	1,808,795	9,498	206	252	19,185	1,837,936	4,296
CASH AT JUNE 30, 2008.....	\$ 1,737,715	\$ 4,583	\$ 1,471	\$ 1,120	\$ 19,585	\$ 1,764,474	\$ 4,909

Commonwealth of Pennsylvania
Statement of Cash Flows
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2008
 (Amounts in thousands)

(Amounts in thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2007)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss).....	\$ (152,207)	\$ (227,153)	\$ 41,752	\$ (82,067)	\$ 125,470	\$ (294,205)	\$ 13,886
Depreciation and amortization.....	-	176	7,951	-	7,812	15,939	11,615
Provision for uncollectible accounts.....	-	18,556	-	-	(8,306)	10,250	-
Non-operating revenues.....	-	-	2,567	-	1,666	4,233	-
Changes in assets and liabilities:							
Accounts receivable.....	(25,209)	(7,434)	(972)	202	(20,744)	(54,157)	(1,004)
Unemployment compensation assessments receivable.....	44,044	-	-	-	-	44,044	-
Inventory.....	-	-	-	-	(10,991)	(10,991)	953
Due from other funds.....	(70)	-	(1)	-	1,158	1,087	(13,144)
Due from component units.....	44	-	-	-	5	49	54
Due from other governments.....	(9,360)	-	(2,231)	-	(12)	(11,603)	(30)
Due from political subdivisions.....	1,864	-	-	-	-	1,864	-
Other current assets.....	-	6,709	72	-	(5)	6,776	169
Accounts payable and accrued liabilities.....	(3,474)	(6,513)	45,798	(1,664)	(1,235)	32,912	9,015
Tuition benefits payable.....	-	-	-	90,767	-	90,767	-
Due to other funds.....	(3)	-	57	-	556	610	182
Due to political subdivisions.....	-	-	135	-	24	159	-
Due to other governments.....	737	-	(52)	-	(166)	519	(4)
Unearned revenue.....	(16)	(35,663)	895	-	39	(34,745)	-
Insurance loss liability.....	-	168,382	-	-	(656)	167,726	-
Other liabilities.....	-	(38,034)	1,898	5	2,026	(34,105)	359
Total Adjustments.....	8,557	106,179	56,117	89,310	(28,829)	231,334	8,165
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ (143,650)	\$ (120,974)	\$ 97,869	\$ 7,243	\$ 96,641	\$ (62,871)	\$ 22,051
Decrease in fair value of investments during the fiscal year.....	\$ (192)	\$ (8,137)	\$ (9,946)	\$ (106,951)	\$ (6,295)	\$ (131,521)	\$ (963)

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

(Amounts in thousands)

		Investment Trust Fund	Private Purpose Trust Fund	
	Pension (and Other Employee Benefit) Trust Funds	INVEST Program for Local Governments (December 31, 2007)	Tuition Account Investment Program	Agency Funds
ASSETS				
Cash—Note D.....	\$ 2,691	\$ -	\$ 1,408	\$ 33,223
Cash with fiscal agents—Note D.....	-	-	-	38,270
Temporary investments—Note D.....	128,297	889,431	-	1,123,840
Long-term investments—Note D.....	32,354	-	534,861	2,845,229
Short-term funds—Note D.....	8,210,959	-	-	-
Corporate obligations—Note D.....	4,974,778	-	-	-
Collective trust funds—Note D.....	12,004,935	-	-	-
Real estate—Note D.....	7,996,449	-	-	-
Alternative—Note D.....	23,926,571	-	-	-
Securities lending collateral—Note D.....	7,482,879	-	-	-
Asset-backed securities—Note D.....	137,854	-	-	-
Domestic equities—Note D.....	10,979,351	-	-	-
International equities—Note D.....	19,664,993	-	-	-
International private debt securities—Note D.....	873,674	-	-	-
International public debt securities—Note D.....	1,797,055	-	-	-
Mortgage-backed securities—Note D.....	6,266,104	-	-	-
Private placements—Note D.....	385,699	-	-	-
State and municipal obligations—Note D.....	208	-	-	-
U.S. Treasury obligations—Note D.....	3,630,002	-	-	-
U.S. government agency debt securities—Note D.....	542,458	-	-	-
Receivables, net:				
Taxes—Note G.....	-	-	-	28,848
Accounts.....	-	-	3	176,946
Accrued interest.....	84,374	-	698	2,456
Loans—Note G.....	-	-	-	554
Pension contributions.....	554,016	-	-	-
Investment sale proceeds.....	1,654,710	-	-	289
Other.....	243,498	1,077	-	183,970
Due from other funds—Note H.....	4,309	-	-	-
Due from pension trust funds—Note H.....	11,534	-	-	-
Due from component units—Note H.....	3,091	-	-	-
Due from political subdivisions.....	3,442	-	-	-
Due from other governments.....	45	-	-	-
Advances to other funds—Note H.....	-	-	-	70,500
Depreciable capital assets:				
Machinery and equipment.....	11,454	-	-	-
Less: accumulated depreciation.....	(10,789)	-	-	-
Net depreciable capital assets.....	665	-	-	-
Other assets.....	-	-	-	2,487,564
TOTAL ASSETS.....	111,596,995	890,508	536,970	6,991,689
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities.....	146,178	3,293	599	38,697
Investment purchases payable.....	3,311,950	-	486	1,342
Securities lending obligations.....	7,495,472	-	-	125,535
Due to other funds—Note H.....	1,034	-	-	-
Due to pension trust funds—Note H.....	4,607	-	-	-
Due to political subdivisions.....	-	-	-	368,541
Due to other governments.....	-	-	-	227
Self insurance liabilities.....	-	-	-	389
Other liabilities.....	507,876	-	-	6,456,958
TOTAL LIABILITIES.....	11,467,117	3,293	1,085	6,991,689
NET ASSETS:				
Held in trust for:				
Pension and other employee benefits.....	97,989,624	-	-	-
Healthcare benefits.....	295,998	-	-	-
Employee salary deferrals.....	1,844,256	-	-	-
INVEST Program participants.....	-	887,215	-	-
Tuition Account Investment Program participants.....	-	-	535,885	-
TOTAL NET ASSETS.....	\$ 100,129,878	\$ 887,215	\$ 535,885	\$ -

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

		Investment Trust Fund INVEST Program for Local Governments (December 31, 2007)	Private Purpose Trust Fund Tuition Account Investment Program
ADDITIONS:			
Pension contributions:			
Employer.....	\$ 1,218,011	\$ -	\$ -
Employee.....	1,532,756	-	-
Transfer in from other plans.....	56,228	-	-
Total contributions.....	<u>2,806,995</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation (depreciation) in fair value of investments.....	1,285,411	-	(46,386)
Interest income.....	1,346,252	41,639	14,599
Dividend income.....	913,103	-	-
Rental and other income.....	723,229	-	-
Total investment activity income (loss).....	<u>4,267,995</u>	<u>41,639</u>	<u>(31,787)</u>
Less: investment expenses			
Investment activity expense.....	(745,345)	(889)	-
Net investment earnings (loss).....	<u>3,522,650</u>	<u>40,750</u>	<u>(31,787)</u>
Securities lending activities:			
Income.....	474,174	-	-
Expenses.....	(412,348)	-	-
Total securities lending income.....	<u>61,826</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>3,584,476</u>	<u>40,750</u>	<u>(31,787)</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares purchased.....	-	2,200,886	170,150
Shares issued in lieu of cash distributions.....	-	35,279	-
Shares redeemed.....	-	(2,109,721)	(36,849)
Net increase in net assets from share transactions.....	<u>-</u>	<u>126,444</u>	<u>133,301</u>
TOTAL ADDITIONS.....	<u>6,391,471</u>	<u>167,194</u>	<u>101,514</u>
DEDUCTIONS:			
Benefit payments.....	7,271,749	-	-
Refunds of contributions.....	36,896	-	-
Transfers to other plans.....	147,867	-	-
Administrative expenses.....	74,179	-	3,172
Other expenses.....	3,086	-	-
Distributions to participants.....	-	40,750	-
TOTAL DEDUCTIONS.....	<u>7,533,777</u>	<u>40,750</u>	<u>3,172</u>
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:			
Pension and other employee benefits.....	(1,404,203)	-	-
Healthcare benefits.....	114,291	-	-
Employee salary deferrals.....	147,606	-	-
INVEST program participants.....	-	126,444	-
Tuition Account Investment Program participants.....	-	-	98,342
TOTAL CHANGE IN PLAN NET ASSETS HELD IN TRUST...	<u>(1,142,306)</u>	<u>126,444</u>	<u>98,342</u>
Net assets, July 1, 2007.....	<u>101,272,184</u>	<u>760,771</u>	<u>437,543</u>
Net assets, June 30, 2008.....	<u>\$ 100,129,878</u>	<u>\$ 887,215</u>	<u>\$ 535,885</u>

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Net Assets
Discretely Presented Component Units
June 30, 2008

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2008)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
ASSETS							
Current assets:							
Cash—Note D.....	\$ 65,374	\$ 638,965	\$ 1,188	\$ 1,126	\$ 183,621	\$ 450,905	\$ 1,341,179
Temporary investments—Note D.....	786,230	10,220	357,060	552,920	316,323	196,113	2,218,866
Receivables:							
Accounts	30,125	-	21,311	-	137,870	1,889	191,195
Accrued interest.....	4,683	2,981	255,837	2,575	-	1,992	268,068
Loans—Note G.....	-	99,170	1,161,427	146,643	4,952	60,334	1,472,526
Lease rentals—Note G.....	-	-	-	-	-	3,461	3,461
Other	-	-	-	-	42,449	6,454	48,903
Due from primary government—Note H.....	7,427	-	-	-	395	2,179	10,001
Due from component units—Note H.....	-	26	-	80	-	-	106
Due from Federal government.....	-	-	95,807	2,298	-	615	98,720
Due from other governments	-	-	-	-	-	39	39
Inventory.....	15,372	-	-	-	14,675	369	30,416
Prepaid and deferred expenses.....	-	-	6,767	19,674	7,827	1,624	35,892
Other assets.....	-	14,486	139,874	-	3,756	7,876	165,992
Total current assets	<u>909,211</u>	<u>765,848</u>	<u>2,039,271</u>	<u>725,316</u>	<u>711,868</u>	<u>733,850</u>	<u>5,885,364</u>
Noncurrent assets:							
Long-term investments—Note D.....	362,065	398,190	70,494	-	963,805	60,722	1,855,276
Receivables (net):							
Loans—Note G.....	-	4,181,908	10,668,778	1,712,244	33,655	687,345	17,283,930
Lease rentals—Note G.....	-	-	-	-	-	5,062	5,062
Non-depreciable capital assets—Note E:							
Land.....	181,846	2,454	2,946	-	35,436	14,129	236,811
Construction in progress.....	1,346,351	-	-	-	355,182	23,758	1,725,291
Depreciable capital assets—Note E:							
Land improvements.....	59,482	-	-	-	175,215	8,215	242,912
Buildings and building improvements.....	697,816	29,741	73,204	-	1,632,738	150,690	2,584,189
Machinery and equipment.....	397,477	10,495	27,843	-	358,757	45,468	840,040
Turnpike infrastructure.....	4,613,052	-	-	-	-	-	4,613,052
Library books.....	-	-	-	-	82,654	500	83,154
Other capital assets.....	-	-	60,252	-	-	337	60,589
Less: accumulated depreciation.....	(3,529,195)	(7,852)	(95,108)	-	(825,879)	(113,674)	(4,571,708)
Net depreciable capital assets.....	<u>2,238,632</u>	<u>32,384</u>	<u>66,191</u>	<u>-</u>	<u>1,423,485</u>	<u>91,536</u>	<u>3,852,228</u>
Other assets.....	<u>38,819</u>	<u>18,753</u>	<u>62,381</u>	<u>-</u>	<u>156,769</u>	<u>14,608</u>	<u>291,330</u>
Total noncurrent assets	<u>4,167,713</u>	<u>4,633,689</u>	<u>10,870,790</u>	<u>1,712,244</u>	<u>2,968,332</u>	<u>897,160</u>	<u>25,249,928</u>
TOTAL ASSETS.....	5,076,924	5,399,537	12,910,061	2,437,560	3,680,200	1,631,010	31,135,292

Commonwealth of Pennsylvania
Statement of Net Assets
Discretely Presented Component Units
June 30, 2008

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2008)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities.....	67,910	5,132	129,150	1,046	194,115	13,195	410,548
Securities lending obligations.....	-	-	-	111,966	-	12,194	124,160
Due to primary government—Note H.....	-	4	135	4,515	6,412	480	11,546
Due to component units—Note H.....	-	80	-	26	-	-	106
Due to political subdivisions.....	-	-	-	-	-	125	125
Interest payable.....	41,433	47,873	77,172	772	-	15,798	183,048
Unearned revenue.....	25,963	-	1,462	-	46,199	2,511	76,135
Notes payable—Note J.....	-	-	1,084,019	-	-	388	1,084,407
Bonds payable—Note K.....	-	-	-	-	34,228	-	34,228
Revenue bonds payable—Note K.....	67,555	116,240	-	12,655	-	25,805	222,255
Self insurance.....	2,121	-	-	-	-	-	2,121
Compensated absences.....	9,808	-	2,616	36	11,137	508	24,105
Other financing obligations—Note J.....	-	-	100,043	-	-	-	100,043
Other liabilities.....	-	75,644	139,874	-	187,219	3,358	406,095
Total current liabilities.....	214,790	244,973	1,534,471	131,016	479,310	74,362	2,678,922
Non-current liabilities:							
Due to primary government—Note H.....	-	-	-	88,163	-	-	88,163
Unearned revenue.....	-	-	-	-	5,045	-	5,045
Demand revenue bonds payable—Note J.....	-	-	9,489,975	-	-	-	9,489,975
Notes payable—Note J.....	-	-	1,388,543	-	154,227	24,631	1,567,401
Bonds payable—Note K.....	-	-	-	-	602,642	-	602,642
Revenue bond payable—Note K.....	3,755,287	4,124,990	-	35,441	687,753	1,140,317	9,743,788
Other financing obligations—Note J.....	-	-	138,364	-	-	-	138,364
Compensated absences.....	7,039	-	12,736	238	84,400	2,004	106,417
Self insurance liabilities.....	20,149	-	-	-	-	-	20,149
Other liabilities.....	10,692	285,741	1,366	-	671,210	1,366	970,375
Total non-current liabilities.....	3,793,167	4,410,731	11,030,984	123,842	2,205,277	1,168,318	22,732,319
TOTAL LIABILITIES.....	4,007,957	4,655,704	12,565,455	254,858	2,684,587	1,242,680	25,411,241
NET ASSETS—Note C:							
Invested in capital assets, net of related debt.....	441,889	14,914	(7,500)	-	584,483	81,648	1,115,434
Restricted for:							
Smoking cessation and other health-related programs.....	-	-	-	-	-	4,300	4,300
Transportation.....	260,486	-	-	-	-	-	260,486
Capital projects.....	366,592	-	-	2,182,702	12,575	503	2,562,372
Debt service.....	-	84,185	256,326	-	-	6,883	347,394
Economic stimulus.....	-	-	-	-	-	83,264	83,264
Higher Education.....	-	-	95,780	-	398,555	1,755	496,090
Other purposes.....	-	644,734	-	-	-	34,421	679,155
Unrestricted.....	-	-	-	-	-	175,556	175,556
TOTAL NET ASSETS.....	\$ 1,068,967	\$ 743,833	\$ 344,606	\$ 2,182,702	\$ 995,613	\$ 388,330	\$ 5,724,051

- The notes to the financial statements are an integral part of this statement. -

Commonwealth of Pennsylvania
Statement of Activities
 Discretely Presented Component Units
 For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2008)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
Expenses.....	\$ 1,463,040	\$ 718,543	\$ 1,533,374	\$ 33,831	\$ 1,896,226	\$ 206,702	\$ 5,851,716
Program revenues:							
Charges for goods and services.....	620,205	248,326	892,855	28,419	1,009,224	45,660	2,844,689
Operating grants and contributions.....	78,488	502,313	482,532	5,893	892,175	166,625	2,128,026
Capital grants and contributions.....	12,574	-	-	116,074	25,477	41,413	195,538
Total program revenues.....	711,267	750,639	1,375,387	150,386	1,926,876	253,698	5,168,253
Net (expense) revenue.....	(751,773)	32,096	(157,987)	116,555	30,650	46,996	(683,463)
General revenues:							
Taxes and other general revenues.....	60,592	-	-	-	-	-	60,592
Change in net assets.....	(691,181)	32,096	(157,987)	116,555	30,650	46,996	(622,871)
Net assets, July 1, 2007 (restated)—Note B	1,760,148	711,737	502,593	2,066,147	964,963	341,334	6,346,922
Net assets, June 30, 2008.....	\$ 1,068,967	\$ 743,833	\$ 344,606	\$ 2,182,702	\$ 995,613	\$ 388,330	\$ 5,724,051

- The notes to the financial statements are an integral part of this statement. -

INDEX TO NOTES

	<u>Page</u>
Note A Summary of Significant Accounting Policies	58
Note B Restatement	72
Note C Net Assets/Fund Equity	73
Note D Deposits, Investments and Financial Instruments with Off-Balance Sheet Risk	75
Note E Capital Assets	95
Note F Long-Term Obligations – Business-Type Activities and Proprietary Funds.....	99
Note G Taxes, Loans and Lease Rentals Receivable	100
Note H Internal/Interfund Balances and Transfers	103
Note I Pension and Other Postemployment Benefits.....	108
Note J Short-Term Debt, Demand Revenue Bonds Payable, Notes Payable and Other Financing Obligations	115
Note K General Long-Term Obligations – Governmental Activities and Component Units	117
Note L Refunded Debt	125
Note M Self-Insurance	126
Note N Commitments and Contingencies	128
Note O Certain Agency Fund Claims Liabilities	130
Note P Deferred Compensation	131
Note Q Joint Venture	132
Note R Subsequent Events	133

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

The basic financial statements of the Commonwealth of Pennsylvania have been prepared in accordance with accounting principles generally accepted in the United States applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments.

Government-Wide Financial Statements

Government-wide financial statements report financial position and results of activities for the Commonwealth of Pennsylvania as a whole. Separate columns are presented for governmental and business-type activities within the primary government (defined below) and discretely presented component units. The Statement of Net Assets reports all economic resources (assets) and all liabilities for the primary government of the Commonwealth. The Statement of Activities reports the total cost of providing governmental services, by function, net of related program revenues, and, after including general revenues, reports whether the total net assets of the government increased or decreased during the fiscal year ended June 30, 2008. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (defined below) that are fiduciary in nature. Governmental activities within government-wide financial statements include specific balances and transactions related to Internal Service Funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all Enterprise Funds.

Financial Reporting Entity

Government-wide financial statements include separate columns and/or rows for the primary government and discretely presented component units. Fiduciary component unit balances are reported in the Statement of Fiduciary Net Assets and combining statements for all discretely presented component units are presented following fund financial statements as a Statement of Net Assets and a Statement of Activities.

Primary Government: For financial reporting purposes, the Commonwealth of Pennsylvania is a primary government (PG). The PG includes all publicly elected members of the executive, legislative, and judicial branches of the Commonwealth. The PG also includes all Commonwealth departments, agencies, boards, and organizations that are not legally separate.

Component Units: In addition to the PG, the financial reporting entity includes discretely presented component units. Component units include all legally separate organizations for which the PG is financially accountable, and other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the financial statements to be misleading or incomplete. The criteria used to define financial accountability includes appointment of a voting majority of an organization's governing body and (1) the ability of the PG to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG. Fiscal dependency is also considered. The following organizations are included in the financial reporting entity as component units, either by discrete presentation or as a Fiduciary Fund:

State Employees' Retirement System (SERS) (Fiduciary Fund) - The SERS is a public employee retirement system that covers Commonwealth employees. The PG appoints all voting board members and, on a very limited basis, imposes its will on the SERS. The PG uses the SERS to provide pension benefits to PG employees. The PG makes essentially all employer contributions to the SERS; PG employees make almost all of the employee contributions to the SERS (virtually all PG employees are required to join the SERS). The PG is responsible for all of the SERS pension obligations. The SERS provides services and benefits almost exclusively to the PG. The SERS administers both a defined benefit plan and a defined contribution plan. The defined benefit plan is funded through a combination of employee contributions, employer contributions and investment earnings. The defined contribution plan is funded by voluntary employee contributions and investment earnings. The SERS is reported for its fiscal year ended December 31, 2007.

State Public School Building Authority (SPSBA) and Pennsylvania Higher Educational Facilities Authority (PHEFA) - The SPSBA and the PHEFA issue limited obligation revenue bonds, the proceeds of which are used to finance the construction of

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

facilities for school districts and public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the schools. The PG appoints all nine voting members of the SPSBA and the PHEFA governing boards; nine high-ranking members of the PG serve as ex-officio members of each board. As a result, the PG is able to impose its will. The PG's Department of Education approves the SPSBA projects (which indicates imposition of will and fiscal dependency). Neither the PG nor the Authorities are obligated for debt service payments (beyond lease/loan payments from schools).

Ben Franklin Technology Development Authority (BFTDA) - Similar to the predecessor Ben Franklin/IRC Partnership, the BFTDA promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the BFTDA, also increase Pennsylvania business competitiveness. The BFTDA works closely with the Department of Community and Economic Development (DCED) and includes a Revolving Loan Program. The PG appoints all 21 voting members of the governing board. The PG may appropriate funding for the BFTDA from the **General Fund**.

Port of Pittsburgh Commission (PPC) - The PPC promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities. The PG appoints all 15 voting members of the governing board and can remove board members at will. The PG provides funding for the PPC but is not required to do so.

Insurance Fraud Prevention Authority (IFPA) - The IFPA assists in the prevention, discovery, investigation and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties and awards. The PG appoints six of seven voting members of the IFPA governing board; the Attorney General serves ex-officio as one of these six members. A significant portion of IFPA expenditures funds the Section on Insurance Fraud in the Office of Attorney General; this indicates a financial benefit/burden. The IFPA is not fiscally dependent on the PG.

Philadelphia Shipyard Development Corporation (PSDC) - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction and job recruitment and training costs. The PG appoints three of five voting board members and provides a significant portion of funding for the PSDC. The PSDC is reported for its fiscal year ended December 31, 2007.

Philadelphia Regional Port Authority (PRPA) - The PRPA operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The PRPA charges rental and other fees to port users and obtains other funding from the PG. The PRPA also issues revenue bonds to finance its activities. The PG appoints all eleven voting board members and can remove board members at will. The PG provides operating and capital subsidies and pays rent in amounts equal to PRPA debt service requirements. The PRPA is fiscally dependent on the PG, as the Governor must approve the issuance of its debt.

Pennsylvania Higher Education Assistance Agency (PHEAA) - The PHEAA makes grants and loans to students to help fund the cost of higher education. Lending institutions and post-secondary schools are involved in the loan program. The PG funds the PHEAA grant program; the PHEAA issues revenue bonds to fund the student loan program. Revenue bonds are repaid from student loan repayments. The PHEAA also services student loan portfolios for lending institutions. The PG appoints all 20 voting board members but does not significantly impose its will on the PHEAA. A significant PG financial burden exists through subsidizing the grant program; also, although the PG is not obligated for the PHEAA revenue bonds, the PG could take certain actions to satisfy bondholders. The PHEAA is fiscally dependent, as the Governor must approve the issuance of its debt.

Pennsylvania Housing Finance Agency (PHFA) - The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loans benefit older adults, persons of modest means, persons with disabilities, and low and moderate-income individuals and families. The PG appoints all voting board members; four of the fourteen members may be removed at will. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare, and the State Treasurer serve as ex-officio members. The Governor is required to request an appropriation from the General Assembly for the PHFA whenever a deficiency exists in the capital reserve account or if additional funds are needed

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

to avoid a default on the PHFA debt. This represents a PG moral obligation for the PHFA debt. The Governor must approve the issuance of the PHFA debt.

Patient Safety Trust Authority (PSTA) - The PSTA is charged with taking steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities and birthing centers. The Board of Directors has 11 members: the Pennsylvania Physician General, who serves as the Board chair, six members appointed by the Governor representing specific professional occupations, and four members appointed by the General Assembly. The Pennsylvania Department of Health determines whether or not PSTA recommendations will be adopted, establishing PG imposition of will; further, the enabling legislation limits the amount of assessments PSTA charges medical facilities to fund PSTA activities.

Pennsylvania Industrial Development Authority (PIDA) - The PIDA collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas or assist specific companies. Loans are made at lower-than-market interest rates; the interest rates are based on local unemployment and other economic conditions. The PIDA issues revenue bonds to finance the loan program. Loan repayments are used for debt service payments. The PIDA operates closely with the DCED. The PG appoints all voting board members and is able to impose its will on the PIDA. The PG has provided contributed capital; "excess" PIDA funds are transferred to the **General Fund**. The PG is not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

Pennsylvania Infrastructure Investment Authority (PENNVEST) - The PENNVEST makes grants and low-interest loans to local governments and authorities, businesses and nonprofit organizations for the construction, improvement, repair or rehabilitation of drinking and waste water systems. The PENNVEST obtains funds through Commonwealth general obligation bond proceeds (approved by referendum), revenue bonds, the Federal government and contributed amounts from Commonwealth funds. Loan repayments finance the PENNVEST debt service costs. The PENNVEST operates closely with the Department of Environmental Protection. The PG appoints all voting board members; there are limitations on three of the thirteen appointments. By issuing general obligation debt and providing the proceeds to the PENNVEST as contributed capital, the PG creates a significant financial burden. The PG is not obligated for the PENNVEST debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of the PENNVEST revert to the Commonwealth.

Pennsylvania Turnpike Commission (PTC) - The PTC was created to construct, maintain and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation. The Governor must approve the issuance of all PTC debt. The PG is not obligated for PTC debt, but the PG could take certain actions to satisfy bondholders. The PTC is reported for its fiscal year ended May 31, 2008.

State System of Higher Education (SSHE) - The SSHE was created to provide instruction for postsecondary students. The SSHE is composed of fourteen universities and an administrative headquarters. Resources are provided by student tuition, grants and PG subsidies. The PG appoints all 20 voting board members, which in turn appoint the university presidents and chancellor. Five of the appointments must be trustees of universities; three must be students. The PG provides significant operating and capital subsidies to the SSHE. The PG is not obligated for the SSHE debt, but the PG could take certain actions to satisfy bondholders.

Commonwealth Financing Authority (CFA) - The CFA administers and funds economic stimulus programs; the programs offer financial assistance through loans, grants, guarantees, sales, leases, investments, lines and letters of credit, and other authorized financial arrangements. The PG appoints the four voting members of the Board of Directors and may remove these members at will. The Secretary of Community and Economic Development, Secretary of the Budget, and Secretary of Banking serve as ex-officio members of the Board. The CFA is authorized to issue limited obligation revenue bonds and other types of limited obligation revenue financing. The bonds are payable solely from CFA revenues or funds appropriated to the CFA by the Commonwealth. While the enabling legislation provides that CFA bonds are not a debt or obligation of the Commonwealth, it is anticipated that **General Fund** appropriations will be required to support the annual debt service cost on CFA debt. The CFA is fiscally dependent on the PG, as the Secretary of the Budget must certify that the **General Fund** can support any appropriations needed to pay the debt service payments or costs incurred in any bond issuance.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Thaddeus Stevens College of Technology (College) - Founded in the early twentieth century, the College was financially reported as part of the PG through and including the fiscal year ended June 30, 2003. Legislation effective July 1, 2003 amended the Board of Directors to a body politic and corporate constituting a public corporation, making the College an entity legally separate from the PG. The Governor, with the advice of the Senate, appoints nine members of the Board, and the Secretary of Education serves as an ex-officio member. Although the PG selects the members of the Board, the members have great latitude to manage the College subsequent to their appointment. The PG has some ability to influence the structure or content of the College's budget through overview of the Department of Education. The College presents a financial burden to the PG, as the PG appropriates monies for College operations.

Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) (Fiduciary Fund) - The PLHIGA was created to protect insurance policy owners, insured persons, beneficiaries, annuitants, payees and assignees of direct non-group life, health, annuity and supplemental policies or contracts from potential insurer failure due to the impairment or insolvency of the insurer. The PLHIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PLHIGA is also authorized to assist the Pennsylvania Insurance Commissioner in the prevention and detection of insurer impairments or insolvencies. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PLHIGA. There is a minor financial burden on the PG. The PLHIGA is reported for its fiscal year ended December 31, 2007.

Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) (Fiduciary Fund) - The PPCIGA was created to provide for the payment of insured property and casualty policy claim losses and to avoid losses to claimants or policyholders as a result of insurer insolvency. The PPCIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PPCIGA. There is a minor financial burden on the PG. The PPCIGA is reported for its fiscal year ended December 31, 2007.

Public School Employees' Retirement System (PSERS) (Fiduciary Fund) - The PSERS was created to administer and provide pension benefits to public school employees in Pennsylvania. The PSERS covers almost all such employees. Covered elementary and secondary school employers make employer contributions with the PG reimbursing each employer at least half their required annual contribution. Employer contributions for covered employees of higher education institutions and covered employers and the PG share state-owned schools equally; all covered public school employees also contribute. The PG appoints eight of fifteen voting board members; the seven other members are appointed by active or retired public school employees or are appointed by public school boards. In addition to making significant contributions to the PSERS, the PG guarantees the payment of all annuities and other pension benefits. This represents a compelling PG financial burden.

Pennsylvania Economic Development Financing Authority (PEDFA) - The PEDFA was created to lend money primarily to businesses to promote economic development in the Commonwealth. The PEDFA issues revenue bonds to fund specific projects only and repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDFA is not obligated to bondholders beyond amounts received by the Authority from the funded projects. Financial statement information for the PEDFA is not reported because its only activity involves conduit debt. The PG appoints all sixteen board members; five members are ex-officio. The PG is not obligated for the PEDFA debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of PEDFA revert to the Commonwealth.

Pennsylvania Energy Development Authority (PEDA) - The PEDA was created to promote the development of energy sources within the Commonwealth. The PEDA issued revenue bonds and lent the proceeds to fund four specific projects. Loan repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDA is not obligated to bondholders beyond amounts received from the funded projects. The PEDA has not issued any debt since 1990. Financial statement information for the PEDA is not reported because its only significant economic activity involves conduit debt. The PG appoints all 19 board members; six members are ex-officio. The Governor must approve the issuance of PEDA debt. The PG is not obligated for the PEDA debt, but the PG could take certain actions to satisfy bondholders. The PEDA board reviewed and approved funding for certain alternative energy grant applications during the fiscal year ended June 30, 2008.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial Statements for Component Units and Investment Trust Fund**

Audited financial statements for component units are available by writing to the Commonwealth Chief Accounting Officer, 303 Walnut Street, Sixth Floor, Verizon Tower, Harrisburg, PA 17101. The Commonwealth sponsors the INVEST Program for Local Governments, an external investment pool, which is reported as an Investment Trust Fund. Audited financial statements for that Program are also available through the Chief Accounting Officer.

Related Organizations

The Commonwealth created the **Pennsylvania Municipal Retirement System (PMRS)**. The PG appoints all eleven governing board members but is not financially accountable, as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with the PMRS. Local governments are the only participants in the PMRS. Participation is voluntary and there are variations among different municipal pension plans. Local participating governments are financially responsible only for their own plan obligations. The Commonwealth provides accounting services to the PMRS on a cost reimbursement basis.

The Commonwealth also created the **Automotive Theft Prevention Authority (ATPA)**. The PG appoints all seven governing board members but is not financially accountable due to a lack of imposition of will and no financial benefit/burden. The ATPA is not fiscally dependent on the PG. The operation of the ATPA is funded by an annual assessment paid by companies providing automobile insurance in the Commonwealth. The PG processes cash receipts and disbursements for the ATPA.

The **Philadelphia Parking Authority (Authority)** is financially reported as a discretely presented component unit in the City of Philadelphia's (City) financial reporting entity. Act 22 of 2001 provided, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board. The Act provided for an increase from five to eleven board members; the Commonwealth appointed six new members by June 30, 2001. Effective June 30, 2006, the terms of board members appointed prior to June 2001 expired. No replacement appointments for those positions were made, pursuant to the provisions of the Act. Beginning June 1, 2006, the board consists of the six members appointed in 2001, whose terms expire in 2010, 2011 and 2012.

The **Philadelphia School District (School District)** is financially reported as a discretely presented component unit in the City of Philadelphia's (City) financial reporting entity. During 2001, the General Assembly passed Senate Bill 640 that provided, in part, for several changes to the Public School Code. Among other things, the changes provide for the Commonwealth to appoint a voting majority of the School Reform Commission that now governs the School District. Despite these changes, the School District remains fiscally dependent on the City.

Joint Venture

The Commonwealth, through its Office of Administration, created the Pennsylvania Employees' Benefit Trust Fund (PEBTF) using a contractual agreement with various Commonwealth employee labor unions. The PEBTF establishes and provides active Commonwealth employee healthcare benefits and is the Commonwealth's third-party administrator for the Commonwealth's retiree healthcare programs. A governing board administers the PEBTF; one-half of the board is appointed by the Commonwealth and one-half is appointed by the various unions. Neither the Commonwealth nor the unions control the governing board or the PEBTF; administration is jointly and equally shared. The Commonwealth and certain of its employees pay for the cost of providing benefits. Contribution amounts are based on the terms contained in collective bargaining agreements. Employee unions are not financially responsible for making contributions. Neither the Commonwealth nor the employee unions have an equity interest or any ongoing financial interest in the PEBTF. Aside from its obligation to make periodic, established contributions, the Commonwealth is not responsible for any obligations of the PEBTF.

Excluded Organizations

School districts, local governments and counties are considered separate, stand-alone primary governments because they are governed by popularly elected officials. Secondary vocational-technical schools, intermediate units and community colleges were considered as potential component units, but have been excluded from the financial reporting entity. These schools

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

may receive significant PG operating and/or capital subsidies, but the PG does not appoint a voting majority of governing board members, nor does the PG impose its will on these organizations. Although various Commonwealth laws affect or strongly influence these organizations, the PG does not control day-to-day operating decisions. These organizations are not fiscally dependent. The PG appoints a portion, but not a voting majority, of the governing boards at the following four universities (commonly referred to as state related): Pennsylvania State University, University of Pittsburgh, Lincoln University and Temple University. The PG provides significant subsidies; however, given the absence of PG appointment of a governing board voting majority and the lack of fiscal dependency, these universities are excluded from the financial reporting entity.

Primary Government – Fund Structure

Fund Accounting: In governmental accounting, a fund is defined as an independent fiscal and accounting entity, with a self-balancing set of accounts, recording cash and/or other resources together with all related liabilities and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. In the Commonwealth, funds are established by legislative enactment or, in certain rare cases, by administrative action.

The fund financial statements include: three major governmental funds and total nonmajor governmental funds; four major enterprise funds and total nonmajor enterprise funds; and all fiduciary funds. The Commonwealth uses the following fund categories to account for each fund included in the primary government:

Governmental Funds

General Fund—Accounts for all financial resources except those required to be accounted for in another fund.

The **General Fund** is the Commonwealth's main operating fund and is reported as a Major Fund. Other Major Funds are displayed in bold print in the Notes to the Financial Statements.

Special Revenue Funds—Account for the proceeds of specific revenue sources (other than debt service or capital projects funds) that are legally restricted to expenditures for specified purposes. The **Motor License Fund** and the **Tobacco Settlement Fund** are reported as Major Funds.

The **Motor License Fund** receives revenues from liquid fuels taxes, licenses and fees on motor vehicle registrations and operating privileges, aviation fuel taxes, federal aid for highway and aviation purposes, contributions from local subdivisions for highway projects and other miscellaneous highway revenues. The Fund makes expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

The **Tobacco Settlement Fund** was originally established to deposit all payments received by the Commonwealth pursuant to the Master Settlement Agreement with tobacco product manufacturers. Deposits into this fund include: jurisdictional payments received by the Commonwealth from the master agreement, strategic contribution payments from the master agreement, quarterly payments from certain Pennsylvania health insurance companies and earnings from investments. Expenditures from this fund are determined by the annual budget appropriated to each program. For the fiscal year ended June 30, 2008 payments from the Master Settlement agreement were distributed as follows: 8 percent to the Health Endowment Account; 13 percent for Home and Community Based Services; 9 percent for Tobacco Use Prevention and Cessation; 19 percent for Health Related Research; 10 percent for Uncompensated Care; 20 percent for Health Investment Insurance; 8 percent for the expansion of the PACENET Program and 13 percent for various health-related purposes. Amounts received from the Pennsylvania health insurance companies are held in a restricted account and used exclusively for Department of Insurance initiatives.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Service Funds—Account for the accumulation of resources, principally transfer from other funds, for the payment of general long-term debt principal and interest. There are no major debt service funds.

Capital Projects Funds—Account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions and other public organizations (other than those financed by Proprietary or Fiduciary Funds). There are no major capital projects funds.

Proprietary Funds

Enterprise Funds—Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges. The **State Lottery Fund**, **State Workers' Insurance Fund**, **Unemployment Compensation Fund** and **Tuition Payment Fund** are all reported as Major Funds.

The **State Lottery Fund** provides for the operation of the Pennsylvania State Lottery and for programs to support older Pennsylvanians. Revenues are derived from the sale of lottery tickets, interest earned on securities and deposits, unclaimed prize monies and Federal grants. Fund expenses pay for prizes to holders of winning lottery tickets and commissions to local lottery agents. Amounts remaining after payment of lottery prizes and commissions are used to fund programs benefiting older Pennsylvanians including PENNCARE, PACE, PACENET, free mass transit and reduced fare shared-ride programs, and property tax and rent rebates.

The **State Workers' Insurance Fund (SWIF)** was created by legislation on June 2, 1915 and operates within the Department of Labor and Industry. It is a self-sustaining fund providing workers' compensation insurance to employers, including those who are refused policies by private insurance firms. **SWIF** is subject to underwriting rules, classifications and rates promulgated by rating bureaus authorized by the Commonwealth Insurance Commissioner. Premium rates are established by the bureaus based on the history of accidents by industry classification. Revenues are generated by premiums charged to policyholders plus investment income. Workers' compensation payments and administration costs are paid from the Fund. The **State Workers' Insurance Fund** is reported for its fiscal year ended December 31, 2007.

The **Unemployment Compensation (UC) Fund** is comprised of four basic components: the Employer Contribution Fund, the UC Benefit Payment Fund, the Special Administration Fund, and the UC Trust Fund in Rockville, MD. The purpose of these funds is to collect employer assessments for UC and transfer the assessments to the Federal government for deposit in the UC Trust Fund. As needed, these funds are drawn back to pay unemployment compensation payments to claimants. The Special Administration Fund is used to isolate penalty and interest charges from employers and claimants. It is used to supplement grant-funding shortfalls and pay audit disallowances with any remaining amounts over \$200 thousand at each June 30 being transferred to the UC Trust Fund. The UC Benefit Payment Fund also receives funds from the Federal government to reimburse Pennsylvania for those Federal workers who collected UC benefits from Pennsylvania.

The **Tuition Payment Fund** offers a college savings program with a guaranteed rate of return based on increases in the cost of tuition. The program is administered by the Tuition Account Program Bureau within the Treasury Department with oversight by the Tuition Account Program Advisory Board. Revenue is derived primarily from application fees, participant contributions and investment income. Fund expenses consist mainly of payments to educational institutions and administrative costs.

The State Stores Fund is reported for its fiscal year ended June 24, 2008.

Internal Service Funds—Account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis. The Purchasing Fund is used to purchase materials, supplies, services, and equipment for use by departments, agencies, boards, and commissions of state government, and to pay costs associated with administering the fund. The fund receives reimbursements from the various Commonwealth departments, boards, and commissions for the materials, services, and supplies they obtain from appropriations and periodic loans from the **General Fund**, from the sale of vehicles and unserviceable property and from interest earned on securities. The Manufacturing Fund is a fund that uses inmate labor to produce items for the Department of Corrections and other state agencies. The revenue source is the sale of items produced or services provided. Expenses are for raw materials, inmate labor, and general and administrative costs.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fiduciary Funds**

Trust and Agency Funds—Account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension (and other employee benefit) Trust Funds, an Investment Trust Fund, a Private Purpose Trust Fund and Agency Funds.

The State Employees' Retirement System, a pension trust fund, is a component unit and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries. The Deferred Compensation Fund is an other employee benefit pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

The INVEST Program for Local Governments is an Investment Trust Fund that invests amounts owned by local governments and school districts. The Tuition Account Investment Program is a Private Purpose Trust Fund that invests amounts on behalf of participants who are saving for college tuition costs.

The largest Agency Fund, the Statutory Liquidator Fund, converts the remaining assets of insolvent insurance companies to cash for remittance to policyholders, creditors and stockholders in accordance with the order of distribution established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a Commonwealth Court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders and stockholders. The Underground Storage Tank Indemnification Fund holds assets on behalf of owners and operators of underground storage tanks who incur a liability for taking corrective actions associated with underground storage tank releases. The Municipal Pension Aid Fund holds a portion of casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire fighter pension costs.

The State Employees' Retirement System, a pension trust fund, the Deferred Compensation Fund, an other employee benefit trust fund, and the INVEST Program for Local Governments, an Investment Trust Fund, are reported for their fiscal years ended December 31, 2007.

Measurement Focus and Basis of Accounting- Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. This means that the Statement of Net Assets reports all assets (including receivables regardless of when collected and capital assets, such as heavy trucks, highways and bridges) and liabilities regardless of when payment is due. The Statement of Activities includes all revenues and expenses, regardless of when cash is respectively received or paid. The Statement of Activities reports program revenues, which are revenues derived directly from a specific governmental function and are reported by the function, which generates the revenue. Charges for goods or services, most investment income, grant revenues and fines are reported as program revenues. Neither program revenues nor expenses are reported for donated works of art, historical treasures or similar assets received during the fiscal year because such donations are not material. Except for unemployment compensation tax revenues, which are reported as charges for sales and services program revenues, all tax revenues are classified as general revenues in the Statement of Activities. The Statement of Activities also reports governmental activities expenses that include governmental fund expenditures (those which are not eliminated or reclassified) and current year depreciation on capital assets, which recognizes the cost of ordinary use of the assets over their estimated useful lives. The costs of most employee benefits earned during the fiscal year (such as vacation time earned) and increases in self-insurance liabilities are also reported as expenses in the statement, regardless of when the benefits are used or the liabilities are paid.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Measurement Focus and Basis of Accounting – Fund Financial Statements****Governmental Funds**

The **General Fund**, special revenue, debt service and capital projects funds (governmental funds) are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available, spendable resources. Under the modified accrual basis of accounting, revenues of governmental funds are recognized in the year that they become susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. The Commonwealth accrues the following major revenue sources that are both measurable and available (available is treated as being received within 60 days of fiscal year end for these revenues): sales and use taxes, cigarette taxes, corporation taxes, personal income taxes, liquid fuels taxes, inheritance taxes, liquor taxes, investment income, institutional revenues and sales of goods and services. Grant revenues, including Federal government grant revenues, are recognized when earned; accrued amounts due from the Federal government are treated as available in the period in which all applicable eligibility requirements have been met. Revenues from most other sources are recognized when received.

Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used. Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

Proprietary Funds, Pension (and other employee benefit) Trust Funds and Investment Trust Fund

The enterprise, internal service (proprietary funds), pension (and other employee benefit) trust funds and the investment trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of these funds are included on the Statement of Net Assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

Proprietary Funds classify revenues and expenses as either 'operating' or 'nonoperating', depending on the nature of the activities reported in the individual Fund. The majority of transactions are reported as 'operating'; however, investment income is reported as 'nonoperating' revenues by all Proprietary Funds. Under the Governmental Accounting Standards Board's (GASB) Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Agency Funds

Assets and liabilities of agency funds are reported using the accrual basis of accounting. Agency funds do not report operating statements.

Significant Accounting Policies

Pooled Cash: In accordance with the Fiscal Code, cash balances of most Commonwealth funds are pooled by the Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Equivalents: No investments that could be defined as cash equivalents have been treated as such on the Statement of Cash Flows; therefore, only net changes in cash are displayed.

Investment Pools: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of sophisticated internal investment pools that seek to provide preservation of principal, liquidity, diversification and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary and/or long-term investments; the pools themselves are not financially reported. The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements and is reported as an Investment Trust Fund. Financial statements for the INVEST Program include a Statement of Net Assets and a Statement of Changes in Net Assets prepared using the economic resources measurement focus and the accrual basis of accounting.

Temporary Investments: The Treasury Department manages the Treasury Investment Program (TIP); practically all individual funds that are part of primary government are participants in the TIP. The Treasury Department accounts for each participating fund's equity (considered "shares") in the TIP on a daily basis. "Share" balances of participating funds fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund, and are reported as temporary investments. The TIP is considered an internal investment pool. Periodic TIP earnings are allocated to specific participating funds based on either the weighted daily average share balance or the net asset value on redemption date combined with share balances on declaration date.

Several individual funds may directly own investments in specific securities. Such investments, which are expected to be realized in cash within twelve months after fiscal year end or less, are reported as temporary investments. Temporary investments are reported at fair value (typically using published market prices) except for nonparticipating interest-bearing contracts, which are reported at cost.

Long-Term Investments: Investments expected to be realized in cash after more than twelve months from fiscal year end are reported as long-term investments. Such investments are generally not managed by the Treasury Department. Long-term investments are reported at fair value, except for certain nonparticipating interest-bearing contracts, which are reported at cost. Fair values are based on published market prices, quotations from national securities exchanges and securities pricing services, or by the respective fund managers for securities that are not actively traded. Certain pension trust fund investments, including real estate, venture capital, private equity, private placements and alternative investments are valued based on appraisals, independent advisors or the present value of projected future income.

Investment Income: Investment income includes interest, dividends, realized gains and losses and the change in the fair value of investments, if any, during the fiscal year. If the change in the fair value of investments decreases during any specific fiscal year, such decreases could cause reported, overall investment income to be negative. Certain investment income from specific funds' investments is assigned to another fund and is reported by the receiving fund if the income is transferred for legal or contractual reasons; otherwise, the investment income is reported as a transfer by the receiving fund. Specific fund disclosures for assigned investment income are provided in Note H.

Grants: Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs. Federal reimbursement-type grant revenues are recorded when the related expenditures or expenses are incurred.

Inventories and Prepaid Expenses: Inventories of operating materials and supplies are reported by certain governmental activities and operating and merchandise inventories are reported by Proprietary Funds and the State System of Higher Education, a discretely presented component unit. Operating materials and supplies inventories are valued at cost (first-in, first-out) and merchandise inventories are reported at the lower of cost or market. In the governmental fund financial statements, inventories are accounted for using the purchases method whereby expenditures are reported for current-year purchases of operating materials and supplies. Also, in governmental fund financial statements, prepaid expenses are not reported.

Capital Assets and Depreciation: General capital assets (including infrastructure) and other capital assets are reported at cost or estimated historical cost in the Statement of Net Assets. Donated capital assets are reported at fair market value at

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the time of donation. The cost of all land is reported; for other types of capital assets, the following minimum dollar reporting thresholds are used (in thousands):

Land improvements, buildings and building improvements.....	\$25
Machinery and equipment.....	\$25
Highway and bridge infrastructure	\$100
All other infrastructure.....	\$25

Commonwealth agencies maintain inventories of all their respective capital assets, including assets acquired for less than the above minimum amounts, which are not reported in the Basic Financial Statements. The Pennsylvania Historical and Museum Commission (PHMC) owns diverse collections of historical, architectural, prehistoric and artistic artifacts, archives and manuscripts and scientific specimens. The Commonwealth does not capitalize these collections, as they meet the following criteria: PHMC's mission in acquiring these collections is for the purpose of preservation, education, research and exhibition; PHMC secures and preserves all collections in order to adequately preserve Commonwealth history; and all acquisitions and deaccessions must be approved by the PHMC Collections Committee and the PHMC Executive Director. All amounts received from the deaccessioning of artifacts/collections are placed in a restricted account that can only be used for the purchase of new artifacts/collections. The Commonwealth does not capitalize expenditures for software or expenditures to protect farmland under the Agricultural Area Security Law. Capital assets (excluding land and construction in progress) are depreciated over the estimated useful lives of major capital asset classes using the straight-line method. Depreciation expense is reported in the Statement of Activities as part of direct functional expenses; all depreciation is allocated to a specific function. Capital assets reported by proprietary funds are reported in those funds at cost or estimated historical cost. Depreciation is reported on the straight-line basis over the capital assets' estimated useful lives. Depreciation expense associated with capital assets being procured under capital lease arrangements is reported as part of depreciation expense for other capital assets. The following useful lives are used for primary government governmental activities:

Buildings and building improvements.....	40 years
Improvements other than buildings.....	30 years
Machinery and equipment.....	10 years
Highway heavy equipment.....	15 years
Highway infrastructure.....	25 years
Bridge infrastructure	50 years
Dams, dikes and pier infrastructure	50 years
Other infrastructure	20 years

Primary government business-type activities report depreciation expense using useful lives that are very similar to the above and do not report any infrastructure. Certain land, buildings and improvements owned by the Commonwealth and used by the State System of Higher Education (SSHE), a discretely presented component unit, which were acquired or constructed before July 1, 1983 (the inception date for the SSHE), are financially reported as governmental activities general capital assets. All general capital assets acquired or constructed for the SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of SSHE debt are also reported as governmental activities general capital assets. This reporting treatment is used to conform to the enabling legislation for the SSHE, which includes the vesting of title for the SSHE-used property. Capital assets reported by the SSHE are stated at cost. Depreciation of SSHE capital assets is recognized over the estimated useful life of the assets.

Capital Asset Impairments: Through a variety of policies, Commonwealth management requires agencies to perform periodic assessments of general and other capital assets. Beyond initial reporting (upon acquisition), agencies must adhere to continuing policies regarding usability, function and condition of reported capital assets. With few exceptions, reported capital assets are used by Commonwealth agencies on a daily or other periodic basis and agencies must report impairments promptly. In particular, Commonwealth highways and bridges are inspected on a frequent, scheduled basis. As a matter of public safety, such assets are inspected very closely as part of routine operating procedures. Other general capital assets, such as structures, are used for housing or office space. Many pieces of equipment, including rolling stock, are used almost daily.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Self-Insurance: The Commonwealth is uninsured for property losses and self-insured for annuitant medical/hospital benefits, employee disability and tort claims. Note M provides disclosures for self-insurance liabilities.

Compensated Absences: Employees earn annual leave, depending on length of credited service, from between 2.7 percent to 10 percent of regular hours paid. Generally, a maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

Employees earn sick leave based on 5 percent of regular hours paid. Generally, a maximum of 300 days may be carried forward at the end of each calendar year. Most retiring employees that meet service, age or disability requirements are paid in accordance with the following schedule:

<u>Days Available at Retirement</u>	<u>Percentage Payment</u>	<u>Maximum Days Paid</u>
0-100	30%	30
101-200	40%	80
201-300	50%	150
over 300 (in last year of employment)	100% of days over 300	13

Accumulated annual and sick leave liabilities payable with expendable available financial resources are reported by Governmental Funds; all compensated absences payable are reported by governmental activities and Proprietary Funds and Pension Trust Funds.

Liabilities: In the Statement of Net Assets, governmental activities liabilities are presented as either “current” or “noncurrent.” Liabilities are segregated into these categories by establishing an average maturity for the liability class and classifying the portion due within one year of the statement date as current and the portion due beyond one year of the statement date as noncurrent. For liabilities without specific maturity or due dates, estimates are made of maturities. Liabilities without specific due dates include those related to self-insurance and compensated absences.

Pension Costs: The Commonwealth’s policy is to fund pension costs incurred and to amortize prior service costs over varying periods not exceeding 20 years. Actuarial assets and liabilities are amortized over either a 10-year or a 30-year period.

Indirect Expenses: In the Statement of Activities, the full-cost allocation treatment is used, whereby reported program expenses, by function, include any expenses which could be treated as indirect expenses of another function.

Interest Expense: In the Statement of Activities, no interest expense is reported by direct program costs. No interest expense was capitalized during the fiscal year ended June 30, 2008.

Intergovernmental Revenues: These amounts represent revenues received principally from the Federal government and include revenues received from the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit, based on Act 44 of 2007 and the related Lease and Funding Agreement between the PTC and the primary government Department of Transportation.

Restricted Net Assets: These amounts were determined based on enabling legislation that provides for restrictions on how the resources of special (non-**General Fund**) funds may be used. At June 30, 2008, a portion of governmental activities net assets was restricted based on a Federal government purpose restriction. Practically all reported restricted net assets could become unrestricted based on possible future legislative changes.

Budget Stabilization Reserve Fund: Act 91 of 2002 provided for this Fund effective July 1, 2002 to gradually provide a budgetary reserve amounting to 6 percent of the revenues of the **General Fund**. For the fiscal year beginning July 1, 2002 and in any fiscal year thereafter in which the Secretary of the Budget certifies that there is a surplus in the **General Fund**, 25 percent of the surplus is to be deposited by the end of the next succeeding quarter into this Fund. This requirement resulted in a transfer of \$177 million (based on the June 30, 2007 surplus) during the fiscal year ended June 30, 2008. Due to an amendment to Act 91, there will be no transfer based on the fiscal year ended June 30, 2008 surplus.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tobacco Master Settlement Agreement Proceeds: In 1997, the Pennsylvania Attorney General began litigation in the Philadelphia court of common pleas against several defendant tobacco product manufacturers to recover specified damages. Similar litigation was filed by many other states. In 1998, the Commonwealth joined in the Master Settlement Agreement which settled litigation against certain defendant manufacturers and 52 governmental entities, including Pennsylvania. As part of the settlement, the manufacturers agreed to remit periodic payments to the Commonwealth and other states in perpetuity. Amounts remitted are calculated based on a variety of specific settlement provisions; actual tobacco product sales are one key factor. The Agreement contains procedures for resolving disputes over payment or other issues that may arise. A dispute regarding the amount to be paid for cigarette sales that took place in 2003 is currently being litigated.

Due From Other Governments: This receivable represents amounts due primarily from the Federal government for various department programs.

Bonds Issued, Premium/Discount on Bonds Issued and Bond Issuance Costs: In governmental fund financial statements, the face amount of bonds issued and related premium/discount are separately reported. Bond issuance costs are reported as expenditures. In government-wide financial statements, the face amount of bonds issued is reported as a liability and related premium/discount is amortized over the life of the outstanding debt and is reported as interest expense as part of functional governmental activities expenses. Bond issuance costs are reported as expenses.

Interfund Transactions: The Commonwealth has the following types of transactions between funds, between primary government governmental activities and business-type activities and between primary government and discretely presented component units:

Statutory Transfers—Legally required transfers from specific Funds that subsidize receiving Fund programs are reported when paid as “Transfers in” by the receiving Fund and as “Transfers out” by the disbursing Fund. Legally required payments from the primary government to component unit organizations are reported when paid as governmental activities program expenses and as either Operating Grants and Contributions or Capital Grants and Contributions by component unit organizations. Interfund balances (amounts due from/to other funds) are reported for unremitted, due and payable, transfers at fiscal year end. In the Statement of Activities, only transfers between governmental activities and business-type activities are reported as transfers.

Transfers of Expenditures (Reimbursements)—Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Interfund Services Provided and Used—Charges or collections for services provided by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund are reclassified and treated as reimbursements (above) in fund financial statements and the Statement of Activities. Interfund balances (amounts due from/to other funds) are reported for unremitted charges or collections at fiscal year end that arise in connection with routine, ordinary governmental fund and proprietary fund operations.

Interfund balances: The composition of the Commonwealth’s interfund receivables/payables at June 30, 2008 and transfers in/out during the fiscal year ended June 30, 2008 are presented in Note H. Interfund balances between two governmental funds or two proprietary funds are not reported in the Statement of Net Assets.

New Accounting Pronouncements – Adopted: Effective July 1, 2007 the Commonwealth adopted the Governmental Accounting Standards Board’s (GASB’s) Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*” GASB Statement No. 45 requires that employer governments report expenses for employee other postemployment benefits (OPEB) as they are earned, during the fiscal periods that employees are rendering service to the governments. This reporting treatment is similar to expense recognition for pension benefits provided in GASB Statement No. 27. In early 2006, the Commonwealth began its implementation which included procuring actuarial services for two primary retiree healthcare programs, the Retired Employee Health Program (REHP) and the Retired Pennsylvania State Police Program (RPSPP). GASB Statement No. 45 was implemented on a prospective basis, with zero net OPEB obligation at transition (July 1, 2007) for all primary government OPEB plans. For the fiscal year ended June 30, 2008 the REHP actuarially-determined annual required contribution (ARC) was \$590.4 million; during the prior fiscal year, REHP

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

pay-as-you-go (PAYG) employer contributions were \$474.3 million. For the fiscal year ended June 30, 2008 the RPSPP ARC was \$120.3 million; during the prior fiscal year, RPSPP PAYG employer contributions were \$47.1 million. Therefore, total ARC's for actuarially-determined OPEB expenses for the REHP and the RPSPP (combined) for the fiscal year ended June 30, 2008 were \$710.7 million, or \$189.3 million more than combined PAYG employer contributions of \$521.4 million during the prior fiscal year. During the fiscal year ended June 30, 2008 the Commonwealth established an irrevocable trust/equivalent arrangement for ARC funding purposes. Disclosures related to OPEB plans are included in Note I.

In September 2006, the GASB issued Statement No. 48, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues."* GASB Statement No. 48 distinguishes between sales or collateralized borrowings when governments exchange their rights to future cash flows for immediate cash proceeds or other consideration. The new standard establishes new reporting and disclosure requirements for such transactions and balances. The Commonwealth adopted the standard effective July 1, 2007 with no effect on the primary government financial statements as of and for the fiscal year ended June 30, 2008. The Pennsylvania Higher Education Assistance Agency, a discretely presented component unit, adopted the standard effective July 1, 2007 and has restated and increased its reported net assets as of that date.

In May 2007, the GASB issued Statement No. 50, *"Pension Disclosures."* GASB Statement No. 50 amends GASB Statement Nos. 25 and 27 (both related to pension plans) and provides for enhanced pension disclosures to be consistent with disclosure and required supplementary information requirements established by GASB Statement Nos. 43 and 45 (both related to OPEB). The Commonwealth adopted the standard effective July 1, 2007 and note disclosures related to Commonwealth's participation in the State Employees Retirement System (in Note I) have been revised or added for the Commonwealth's fiscal year ended June 30, 2008.

New Accounting Pronouncements – To Be Adopted:

In December 2006, the GASB issued Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations."* GASB Statement No. 49 establishes recognition 'triggers,' any one of several obligating events, and requires governments to estimate expected outlays for pollution remediation costs at polluted sites. Liabilities and expenses are to be estimated using 'expected cash flows.'

In June 2007, the GASB issued Statement No. 51, *"Accounting and Financial Reporting for Intangible Assets."* GASB Statement No. 51 clarifies pertinent provisions of GASB Statement No. 34 which address capital asset reporting requirements. Among other things, the Commonwealth must begin to report such intangible assets as computer software, which are not presently capitalized and amortized over varying periods of time.

In November 2007, the GASB issued Statement No. 52, *"Land and Other Real Estate Held as Investments by Endowments."* GASB Statement No. 52 changes how permanent and term endowments, including permanent funds, report land and other real estate held as investments. The prior standard required reporting at historic cost; the new standard requires reporting at fair value, along with several note disclosures.

In June 2008, the GASB issued Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments."* GASB Statement No. 53 requires that derivative instruments be reported at fair value; further, periodic changes in those fair values for investment derivatives or other derivatives which are ineffective are reported as a component of investment income. For derivatives which are effective hedging instruments, periodic changes in fair value are deferred on statements of net assets.

The Commonwealth must adopt the new standards as follows:

GASB Statement No. 49	Effective July 1, 2008, for financial statements for the fiscal year ending June 30, 2009
GASB Statement No. 51	Effective July 1, 2009, for financial statements for the fiscal year ending June 30, 2010
GASB Statement No. 52	Effective July 1, 2008, for financial statements for the fiscal year ending June 30, 2009
GASB Statement No. 53	Effective July 1, 2009, for financial statements for the fiscal year ending June 30, 2010

NOTE B – RESTATEMENT**Discretely Presented Component Units - Restatement Due to Adoption of New Standard**

Effective July 1, 2007, the previously reported net assets of the Pennsylvania Higher Education Assistance Agency (PHEAA) have been restated and increased from \$469,770 to \$502,593 as a result of PHEAA's implementation of GASB No. 48, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues."* The restatement increase of \$32,823 represents PHEAA's residual interest in loans receivable which were sold as of June 30, 2007 (amounts in thousands).

As a result of this restatement, total discretely presented component unit net assets were increased from \$6,314,099 to \$6,346,922 as of July 1, 2007 (amounts in thousands).

NOTE C – NET ASSETS/FUND EQUITY

Governmental Activities and Business-Type Activities Net Assets: Total Net Assets are the difference between Total Assets and Total Liabilities reported on the Statement of Net Assets. Total Net Assets are reported in three distinct components: Invested in capital assets, net of related debt; Restricted net assets; and Unrestricted net assets.

Invested in capital assets, net of related debt represents total capital assets less accumulated depreciation and the outstanding liability for debt specifically related to the acquisition of the capital assets. At June 30, 2008, governmental and business-type activities, respectively, reported \$21,482,118 and \$72,668 in net assets invested in capital assets, net of related debt (amounts in thousands).

Restricted net assets represents net assets amounts which are statutorily restricted based on enabling legislation; such amounts may only be used for specific legislated purposes. All reported restricted net assets are restricted based on enabling legislation. Governmental fund balance “designations” are not treated as restricted net assets because they represent plans and can easily be changed. Restraints established by enabling legislation, on the other hand, are not easily changed. At June 30, 2008, governmental and business-type activities, respectively, reported \$4,745,244 and \$3,167,219 in restricted net assets. Net assets restricted for other purposes of \$88,580 and \$126,799 for governmental activities and business-type activities, respectively, at June 30, 2008 include amounts for a range of dissimilar statutory purposes (amounts in thousands).

Unrestricted net assets represents total net assets minus the totals of invested in capital assets, net of related debt and restricted net assets. At June 30, 2008, governmental and business-type activities, respectively, reported unrestricted net assets deficits of \$648,689 and \$73,973 (amounts in thousands).

Governmental Fund Balance Reservations: Fund balance reservations reported in governmental fund balance sheets represent portions of governmental fund balances that are legally segregated for a specific future use or are not available for expenditure.

The amount reserved for advances in the **General Fund**, \$114.1 million, is applicable to advances as follows: \$14.3 million to the Purchasing Fund, an Internal Service Fund; \$2.3 million to the **State Workers’ Insurance Fund** and \$85.0 million to the State Stores Fund, both Enterprise Funds; \$2.2 million to the **Motor License Fund** and \$10.3 million to the Pharmaceutical Assistance Fund, both Special Revenue Funds.

The amount reserved for advances in the Hazardous Sites Cleanup Fund, a Special Revenue Fund, is applicable to a \$3 million advance to the Small Business First Fund, an Enterprise Fund.

Governmental funds reported total fund balance “other” reservations of \$2,088,481 at June 30, 2008. This amount consists of \$1,148,218 reserved in the **General Fund**, \$912,783 for restricted revenue and \$235,435 for continuing programs; \$795,311 reserved in the **Tobacco Settlement Fund** for various health-related programs; \$5,242 in the **Motor License Fund** for transportation-related programs, and \$139,710 reserved in nonmajor Funds for the following programs (amounts in thousands):

Land reclamation and other mining operations.....	\$ 31,504
Pharmaceutical assistance.....	7,376
Recreation.....	8,518
Conservation, recycling, and economic development.....	4,642
Workers compensation.....	31,360
Gaming activities.....	<u>51,508</u>
Total nonmajor Special Revenue programs.....	<u>134,908</u>
General State Authority maintenance in the	
Capital Facilities Fund.....	3,165
Land and water reclamation.....	<u>1,637</u>
Total nonmajor Capital Projects programs.....	<u>4,802</u>
Total nonmajor Funds other reservations.....	<u>\$ 139,710</u>

NOTE C – NET ASSETS/FUND EQUITY (continued)

Governmental Fund Balance Designations: Designations of unreserved fund balances reported in governmental funds balance sheets reflect managerial plans for the future use of financial resources. At June 30, 2008 the Commonwealth had included the following amounts as “Designated—Other” for the **General Fund** (amounts in thousands):

General Fund:	
Group medical and life insurance.....	\$ 342,656
Waste tire and safe water programs.....	28,000
Job creation tax credits.....	2,554
Probation and Parol state and county supervision.....	1,489
Public Welfare and medical assistance programs.....	1,419
Drug and alcohol abuse support services.....	192
Other.....	2,859
Total General Fund.....	\$ 379,169

Governmental Fund Balance Deficits: One Fund has reported a fund balance deficit in the governmental funds balance sheet. The State Racing Fund, a Special Revenue Fund, reported a fund balance deficit of \$5,140 at June 30, 2008 (amount in thousands).

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$628,875 at June 30, 2008. In total, the Capital Facilities Fund reported a fund balance of \$313,292 at June 30, 2008. The Land and Water Development Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$811 at June 30, 2008. Total Capital Projects Funds reported reservations for encumbrances of \$1,035,922; other reservations of \$4,802; designations for Capital Projects of \$54,631; and a deficit unreserved/undesignated fund balance of \$629,686; for total combined fund balances of \$465,669 at June 30, 2008 (amounts in thousands).

Proprietary Fund Net Assets: Nonmajor funds reported total restricted net assets for “other purposes” of \$126,799 at June 30, 2008 for the following programs: mine subsidence insurance, \$62,530; liquor control, \$52,558; vocational rehabilitation, \$3,600; and \$8,111 for other programs (amounts in thousands).

Component Unit Net Assets: Net assets of most component units are restricted, consistent with enabling legislation for component units. Net assets are restricted to purposes specifically identified by the legislation that created the component unit entity. The Pennsylvania Industrial Development Authority reported unrestricted net assets of \$273,305 and the Commonwealth Financing Authority reported deficit unrestricted net assets of \$97,749 (amounts in thousands).

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**Authority for Deposits and Investments****Treasury Department**

The deposit and investment policies of the Treasury Department are governed by Sections 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343), and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929, P.L. 177, No. 175).

Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Fiscal Code grants the Treasury Department the authority to invest in any deposits and investments. This authority is subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived there from as well as the probable safety of their capital. Treasury Department deposits and investments may include equity securities and mutual funds.

As of June 30, 2008, the Treasury Department manages the Treasury Investment Program (TIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the TIP. The objectives of the TIP are preservation of principal, liquidity, diversification and income. All investments are made in accordance with the statutory authority described in the preceding paragraph. The TIP investment pool structure invests in both equity securities and fixed income securities to achieve the investment objectives of the funds of the Treasury Investment Program. Asset allocation targets between equity securities and fixed income securities are established in order to meet these overall objectives.

The TIP consists of two types of pools, currently known as The Common Investment Pool and The Treasury Liquid Asset Pool. The Common Investment Pool consists of three portfolios as follows: the Short-Term Diversified Portfolio, which consists of fixed income investments in a Short-Term Funds segment and a 2-Year Duration Target segment; the Mixed-Term Diversified Portfolio, which consists of fixed income investments, including high yield, and equity investments; and the Discretionary Assets Portfolio, which includes certain economically targeted investments deemed appropriate by the State Treasurer. The Treasury Liquid Asset Pool is a portfolio consisting of fixed income investments with a maximum term not greater than 13 months managed by the Treasury Department.

Other Investing Organizations

Certain investing organizations have statutory authority, which is comparable to the Treasury Department 'prudent person' authority above. The investments of such organizations are accounted for in the following Funds: **Tobacco Settlement**, Workers Compensation Security Trust, **State Workers Insurance**, **Tuition Payment**, Tuition Account Investment Program, INVEST Program for Local Governments (INVEST), Statutory Liquidator, and Underground Storage Tank Indemnification (collectively, other investing organizations). Among other things, the other investing organizations typically invest for longer periods of time than the TIP. Therefore, the other investing organizations own, in relative terms, more intermediate or long-term investments than the TIP. Most of the other investing organizations establish contractual arrangements with investment managers, which identify investment objectives without providing strict limitations on 'allowable' investment purchases. Most of the other investing organizations prohibit investing in certain assets, such as commodities and futures contracts, private placements, except Section 144, limited partnerships, and corporations that are engaged in the tobacco industry. Several of the organizations also prohibit short selling and marginal transactions. One notable exception is **Tobacco Settlement**; this organization permits some or all of the previously mentioned prohibited assets and transactions as well as foreign investments.

Pension Trust Funds

The State Employees' Retirement System (SERS), the Deferred Compensation Program (DCP), the Public School Employees' Retirement System (PSERS) and the Other Post Employment Benefit Investment Pool constitute combined Pension (and Other Employee Benefit) Trust Funds (Pension Trust Funds) reported in the basic financial statements. Pension Trust Funds avoid deposit risks; as such deposits must be authorized by the Treasury Department. Several state laws govern investment authority for the SERS and the PSERS; such laws provide 'prudent person' investing authority. Allowable DCP investment options are established by the SERS under its applicable statutory authority. A very large portion of total Pension Trust Fund investments consists of equity securities, real estate and a wide variety of mutual funds.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)
Deposit Risks

At June 30, 2008, Treasury Department bank balances of \$7,568 were subject to custodial risk because they were uninsured and uncollateralized. In addition, \$37,783 of Statutory Liquidator Fund deposits were subject to custodial credit risk because they were uninsured and uncollateralized. The PSERS had deposits totaling \$53,379 at June 30, 2008 that were not required to be collateralized by statute or policy at M&T Bank which has a credit rating of A-/A2. None of the other investing organizations or the Pension Trust Funds was exposed to either custodial credit risk or foreign currency risk for its deposits at June 30, 2008 (December 31, 2007 for the **State Workers Insurance**, SERS, INVEST and DCP) (amounts in thousands).

Investment Risks

Risk Management Policies: The Treasury Department, which is responsible for the TIP, **Tuition Payment** and INVEST Program, has formally adopted a written investment policy. Provisions of the written investment policy and current management of the investments address custodial credit risk, concentration risk, credit risk, interest rate risk, and foreign currency risk. Most of the other investing organizations have adopted investment policies intended to reduce the various risks or, in the case of foreign currency risk, to avoid it entirely. Pension Trust Fund policies avoid custodial credit risk entirely but are exposed to credit quality, interest rate, and foreign currency risk. To a large degree, credit risk is avoided by following policies to purchase only 'investment grade' securities (Baa/BBB/BBB or better). Where interest rate risk policies have been adopted, risk is avoided by establishing maximum maturities. To a degree, the establishment of policies limiting investment purchases from a single issuer avoids concentration risk. The individual risk policies and related disclosures are discussed in greater detail below. Either collectively or individually, none of the five non-Treasury investing organizations subject themselves to significantly higher risks than the Treasury Department. Based on the long-term nature of Pension Trust Fund investments, those Funds are exposed to interest rate risk, foreign currency risk and, to a smaller degree, credit quality risk.

Investments by Type

At June 30, 2008 the Treasury and other investing organizations disclosed a total of \$22,350,879 in investments. This consists of 82 percent fixed income securities (\$18,332,113), nearly 15 percent common stock securities (\$3,329,289), and the remaining three percent consists of private equity, annuities, foreign cash and cash equivalents, and others. The investment types and related amounts are as follows (amounts in thousands):

Investment Type	Amount
Alternative investments, principally shares of limited liability corporations....	\$ 499,125
Annuities.....	1,591
Asset backed securities.....	109,807
Cash and cash equivalents.....	24,610
Certificates of deposit.....	546,913
Commercial paper.....	752,144
Corporate obligations.....	1,332,833
Derivatives.....	832
Equities.....	3,329,289
Money markets.....	3,803,270
Mortgage backed securities.....	1,107,222
Mutual funds.....	723,929
Preferred securities.....	5,552
Private equities.....	118,275
Private placements.....	63,857
Repurchase agreements.....	2,138,267
Sovereign debts.....	36,485
State and municipal obligations.....	517,019
U.S. government obligations.....	3,126,313
U.S. government sponsored enterprises.....	4,113,546
Total.....	<u>\$ 22,350,879</u>

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold its agreement to a transaction, with either the Treasury Department, the other investing organizations or the Pension Trust Funds, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. In accordance with a contractual relationship between the Treasury Department and its custodial agents, substantially all investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the custodian. The TIP, **Tuition Payment** and INVEST investments are insured or registered; and the securities are held by the Treasury Department or its agent. Similarly, investments of the other investing organizations and the Pension Trust Funds are almost always registered in the name of the Commonwealth, as the Treasury Department is the statutory custodian for such investments. At June 30, 2008, only the Statutory Liquidator Fund owned investment securities subject to custodial credit risk, in the amount of approximately \$1.49 billion. Such securities are neither insured nor registered and are either held by the counterparty or the counterparty's trust department or agent but not in the name of the Commonwealth. The investment types and related amounts are as follows (amounts in thousands):

Investment Type	Amount
Asset backed securities.....	\$ 43,480
Commercial paper.....	14,230
Equities.....	13,042
Corporate obligations.....	552,908
Derivatives.....	903
Mortgage backed securities.....	461,833
Repurchase agreements.....	24,270
State and municipal obligations.....	22,973
U.S. government obligations.....	207,079
U.S. government sponsored enterprises.....	150,852
Total.....	\$ 1,491,570

Concentration Risk: Concentration risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. The Treasury Department places a 10 percent limit on the concentration of investments in any one fixed income issuer within both the TIP, **Tuition Payment** and INVEST. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Treasury Department also places a five percent limit on the concentration of investments in one equity issuer within the Common Investment Pool. Similarly, to a degree, the five other investing organizations limit exposure to concentration risk. Several other investing organizations have adopted policies, which allow greater than five percent of portfolios to consist of securities issued by the U.S. Treasury. At June 30, 2008, 13 percent of total Treasury and other investing organization portfolio investments (\$22,350,879) consisted of U.S. Treasury obligations (\$2,894,132); this amount is over 15 percent of total fixed income investments (\$18,332,113). Also, among Treasury and other investing organizations, the following concentrations existed as of June 30, 2008 (December 31, 2007 for the **State Workers Insurance Fund** and INVEST) (amounts in thousands):

Issuer Name	Amount	% of Total Portfolio
United States Treasury	\$ 2,894,132	12.95%
Federal Home Loan Bank System	2,495,052	11.16%
Bank of America	1,586,282	7.10%
Federal National Mortgage Association	1,206,497	5.40%
Federal Home Loan Mortgage Corporation	1,153,252	5.16%

Among the Pension Trust Funds, the SERS disclosed that \$1.8 billion of U.S. Treasury securities were owned at its fiscal year ended December 31, 2007.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

As of and during the year ended December 31, 2007 the **State Workers Insurance Fund (SWIF)** owned more equity securities at cost than allowed by applicable statutory authority. Act 41 of 2005 permits the **SWIF** to invest in equities at cost not exceeding the lesser of 1) 20 percent of the Fund's assets or 2) the statutory surplus after discount. Based on the reported statutory surplus after discount of \$55,761, equity investments reported at cost exceeded the surplus by \$225,498. **SWIF's** governing board has directed its investment consultant to make recommendations to rebalance the portfolio and specify action necessary to ensure compliance with Act 41 (amounts in thousands).

Credit Quality Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies (NRSRA) such as Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch). The Treasury Department requires purchases of TIP assets to be investment grade (Baa/BBB/BBB or better) at the time of purchase. The fixed income portfolio includes a provision for the asset allocation to allow up to 10 percent of the portfolio to be in high yield investments. These investments, by definition, are not restricted to the investment grade requirements and include investments rated at Ba/BB/BB or below. Generally the other investing organizations limit exposure to credit risk through policies which prevents purchasing below investment grade (Baa/BBB/BBB or better).

At June 30, 2008 approximately \$18,332,113 of total Treasury and other investing organization investments of \$22,350,879 are fixed income investments, susceptible to credit quality rating; the remainder is primarily common stock (\$3,329,289) and private equity (\$118,275). Of the amount susceptible to credit quality rating, \$7,923,528 is rated; ratings are not available for \$10,408,585 of fixed income investments. The following tables discloses aggregate fair value, by the lowest rating obtained by credit quality rating category, at June 30, 2008 for the Treasury Department and the other investing organizations fixed income investments (amounts in thousands):

Moody's Investor Services	Amount
Aaa.....	\$ 2,519,730
Aa1.....	42,035
Aa2.....	70,515
Aa3.....	97,621
A3e.....	720
A1.....	105,258
A2.....	147,597
A3.....	78,943
Baa1.....	80,016
Baa1e.....	1,106
Baa2.....	143,685
Baa2e.....	2,320
Baa3.....	91,909
Ba1.....	38,164
Ba2.....	73,067
Ba3.....	57,212
B1.....	56,467
B2.....	32,920
B3.....	41,222
Caa1.....	10,426
Caa2.....	3,005
Caa3.....	990
Ca.....	19
P-1.....	665,719
Moody's Investor Services subtotal..	\$ 4,360,666

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL
INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Fitch Ratings	Amount
AAA.....	\$ 3,102,673
AA.....	2,926
AA-.....	8,257
A.....	6,019
A-.....	5,599
A+.....	2,824
BBB.....	1,464
BBB-.....	216
BB.....	174
B.....	553
B-.....	213
B+.....	4,104
CCC.....	897
CC.....	927
Fitch Ratings subtotal.....	\$ 3,136,846
Standard and Poor's	
AAA.....	\$ 103,327
AA.....	5,259
AA-.....	29,305
AA+.....	16,696
A-1.....	99,725
A-1+.....	6,998
A.....	24,063
A-.....	13,811
A+.....	22,976
BBB.....	12,913
BBB-.....	8,211
BBB+.....	11,690
BB.....	20,142
BB-.....	7,833
BB+.....	7,880
B.....	16,406
B-.....	4,296
B+.....	9,218
CCC.....	1,661
CCC+.....	3,454
CC.....	84
D.....	68
Standard and Poor's subtotal.....	\$ 426,016
Total Rated.....	\$ 7,923,528
Unrated.....	\$ 10,408,585
Total fixed income investments.....	\$ 18,332,113

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

At June 30, 2008 two percent (\$391,404) of fixed income investments are rated below investment grade. Approximately 57 percent (\$10,408,585) of the fixed income portfolio in Treasury and other investing organizations is not rated by any of the Nationally Recognized Securities Rating Agencies (NRSRA). Unrated Fixed Income Investments include securities that did not have a credit rating available from a NRSRA at June 30, 2008 (December 31, 2007 for the **State Workers Insurance Fund** and **INVEST**). These unrated securities include U.S. Government Obligations which were not rated by an NRSRA. They are negotiable debt obligations of the U.S. Government secured by its full faith and credit. Also included in the Unrated Fixed Income Investments are U.S. Government Sponsored Enterprises (GSEs). GSE securities are not normally rated and are not explicitly backed by the full faith and credit of the U.S. Government. The unrated securities consisted of the following types of investments as of June 30, 2008 (December 31, 2007 for the **State Workers Insurance Fund** and **INVEST**) (amounts in thousands):

<u>Investment Type</u>	<u>Amount</u>
Alternative investments.....	\$ 226,187
Annuities.....	1,591
Asset backed securities.....	729
Certificates of deposit.....	546,913
Commercial paper.....	2,000
Corporate obligations.....	2,831
Money markets.....	2,420,891
Mortgage backed securities.....	539,307
Mutual funds.....	201,562
Private placements.....	11,086
Repurchase agreements.....	2,125,938
Sovereign debt.....	35,416
State and municipal obligations.....	468,545
U.S. government obligations.....	309,166
U.S. government sponsored enterprises.....	3,516,423
Total.....	\$ 10,408,585

The Pension Trust Funds may expose themselves to greater credit quality risk than Treasury Department or other investing organizations to meet specific investment objectives. SERS and DCP fixed income securities, which are exposed to credit quality risk, are rated as follows (amounts in thousands):

<u>Moody's Investor Services^a</u>	<u>SERS</u>	<u>DCP</u>
Aaa.....	\$ 432,948	\$ 30,232
Aa.....	45,576	15,460
A.....	215,069	90,160
Baa.....	295,343	20,247
Ba.....	616,948	718
B.....	799,257	-
Caa.....	177,688	-
Ca.....	2,202	-
C.....	2,893	-
D.....	11,834	-
Unrated ^b	652,330	443,413
Treasury Investment Program.....	1,066,068	53,039
Total.....	\$ 4,318,156	\$ 653,269

^a The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Ba1 is shown as a rating of Ba in this table.

^b Represents securities that were either not rated or had a withdrawn rating. These Unrated securities include U.S. Government Obligations which were not rated by an NRSRA. They are negotiable debt obligations of the U.S. Government secured by its full faith and credit. Also included in the Unrated Fixed Income Investments are U.S. Government Sponsored Enterprises (GSEs) totaling \$52,060 for SERS and \$17,698 for DCP. GSE securities are not normally rated and are not explicitly backed by the full faith and credit of the U.S. Government (amounts in thousands).

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

PSERS fixed income securities, which are exposed to credit quality rating, are listed below using the rating (expressed as S&P equivalent), available from Fitch, Moody's, and/or S&P that indicates the greatest degree of risk at June 30, 2008 (amounts in thousands):

Standard and Poor's Equivalent^a	Amount
AAA.....	\$ 8,436,260
AA.....	1,435,628
A.....	1,824,267
BBB.....	1,593,709
BB and below.....	904,053
Unrated ^b	3,262,399
U.S. government obligations ^c	2,256,990
Treasury Investment Program.....	2,486,098
Total.....	<u>\$22,199,404</u>

^a The Standard and Poor's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of A+ is shown as a rating of A in this table.

^b Unrated represents securities that were not rated by S&P and \$2,294,869 of securities in collective trust funds at June 30, 2008 (amounts in thousands).

^c Represents securities issued by the U.S. Government and explicitly backed by the full faith and credit of the U.S. Government.

Interest Rate Risk: Interest rate risk is the risk that an investment's value will change, advantageously or adversely, due to a change in the absolute value of interest rates. The Treasury Department measures interest rate risk using duration. To limit Treasury's exposure to fair value losses arising from rising interest rates, Treasury's long-term asset allocation diversifies its fixed income core segment between intermediate duration and longer duration strategies. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. Treasury measures interest rate risk using option-adjusted duration, which takes into account embedded options affecting cash flows. Other investing organizations use less sophisticated measurements to manage interest rate risk; several limit the maximum term-to-maturity of investment purchases. Further, to avoid interest rate risk, many other organizations deliberately hold a given percentage of total investments in very short-term securities to avoid the potential need to sell such securities at a loss. At June 30, 2008, TIP and other investing organizations, excluding Statutory Liquidator, fixed income portfolio had the following option-adjusted durations (in years) by investment type (amounts in thousands):

Investment Type	Amount Securities with Duration	Option-Adjusted Duration	Amount Securities with no Duration
Alternative investments.....	\$ 231	1.739	\$ 185,087
Asset backed securities.....	64,739	1.223	1,588
Certificates of deposit.....	546,654	0.250	38
Commercial paper.....	735,914	0.079	2,000
Corporate obligations.....	778,739	4.288	1,186
Money markets.....	2,984,966	0.083	-
Mortgage backed securities.....	635,235	3.644	10,154
Private placements.....	62,682	4.512	1,175
Repurchase agreements.....	2,113,997	0.001	-
Sovereign debts.....	1,069	4.465	35,416
State and municipal obligations.....	488,657	0.794	5,389
U.S. government obligations.....	2,918,982	5.134	252
U.S. government sponsored enterprises.....	3,962,694	0.631	-
Total.....	<u>\$ 15,294,559</u>		<u>\$ 242,285</u>

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The Statutory Liquidator Fund and Tuition Account Investment Program do not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for those Funds (amounts in thousands):

Investment Type	Matures in less than One Year	Matures in 1 to 5 Years	Matures in 6 to 10 Years	Matures in 11 to 20 Years	Matures in 21 to 30 Years	Matures in 31 to 40 Years	Matures in over 40 Years	No Maturity Date	Total
Alternative investments.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 295,965	\$ 295,965
Annuities.....	-	-	-	-	-	-	-	1,591	1,591
Asset backed securities.....	-	29,967	4,910	179	6,983	1,441	-	-	43,480
Certificates of deposit.....	222	-	-	-	-	-	-	-	222
Commercial paper.....	14,230	-	-	-	-	-	-	-	14,230
Corporate obligations.....	59,633	259,117	162,144	5,676	7,583	9,940	48,815	-	552,908
Money markets.....	-	-	-	-	-	-	-	818,304	818,304
Mortgage backed securities.....	3,870	3,345	19,369	25,288	289,838	87,476	32,648	-	461,834
Mutual funds.....	21,741	-	164,908	-	-	-	-	14,913	201,562
Repurchase agreements.....	24,270	-	-	-	-	-	-	-	24,270
State and municipal obligations.....	100	1,611	7,802	1,600	2,675	9,185	-	-	22,973
U.S. government obligations.....	24,304	108,517	71,081	-	3,177	-	-	-	207,079
U.S. government sponsored enterprises.....	45,327	98,251	5,144	-	-	-	2,129	-	150,851
Total.....	\$ 193,697	\$ 500,808	\$ 435,358	\$ 32,743	\$ 310,256	\$ 108,042	\$ 83,592	\$ 1,130,773	\$ 2,795,269

Based on specific investment objectives, the Pension Trust Funds may expose themselves to greater interest rate risk than Treasury Department or other investing organizations. Several investment choices, which may be selected by Deferred Compensation Program participants, include the Stable Value Account, Aggregate Bond Index, and U.S. Tactical Asset Allocation Fund, include a variety of fixed income securities. Each Pension Trust Fund uses option-adjusted duration (in years) as a measure of interest rate risk, as follows (amounts in thousands):

Investment Type	SERS Amount	DCP Amount	SERS Option-Adjusted Duration	DCP Option-Adjusted Duration
Asset backed securities.....	\$ 128,341	\$ 9,513	0.90	3.30
Corporate obligations.....	1,285,624	120,681	3.60	4.60
Mortgage backed securities.....	815,504	432,054	2.84	3.17
Other investments ^a	76,813	-	N/A	N/A
Sovereign debt.....	521,593	9,015	5.70	4.30
Treasury Investment Program.....	1,066,068	50,471	0.10	0.10
U.S. government obligations.....	1,822,787	125,238	4.10	4.80
U.S. government sponsored enterprises.....	52,060	17,698	2.10	3.90
U.S. private placements.....	373,114	12,585	4.20	3.50
Total.....	\$ 6,141,904	\$ 777,255		

^aOther Investments represents certain SERS securities with maturities ranging through the year 2027 and the value of swap agreements as of December 31, 2007.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

PSERS:

Investment Type	Amount	Option-Adjusted Duration
Corporate obligations and taxable municipal obligations..	\$ 3,277,625	3.4
Fixed income collective trust funds.....	2,294,869	3.3
International fixed income.....	2,139,075	5.5
Miscellaneous domestic fixed income.....	290,847	0.7
Mortgage-backed securities.....	5,389,010	3.2
Treasury Investment Program.....	2,486,098	0.2
U.S. Treasury and agency obligations.....	1,785,467	7.8
Total.....	\$ 17,662,991	

Fixed income investment managers enter into futures contracts to adjust the durations of their portfolios as a whole. In total, futures contracts have adjusted PSERS' total fixed income portfolio duration upward by 0.1 at June 30, 2008.

Foreign Currency Risk: Foreign currency risk is the risk of an investment's value changing, advantageously or adversely, due to changes in currency exchange rates. The Treasury Department's policy requires all investments to be denominated in U.S. dollars, issued under U.S. laws and regulations, designed for U.S. investors, and traded in U.S. markets. Among the other investing organizations, the **Tobacco Settlement Fund** and the **Tuition Payment Fund** are authorized to purchase securities denominated in a foreign currency. At June 30, 2008, the **Tobacco Settlement Fund** reported \$128.8 million and the **Tuition Payment Fund** reported \$41.7 million of foreign currency-denominated holdings. The foreign currency holdings make up nearly 3 percent of the **Tuition Payment Fund's** total investment portfolio and less than 11 percent of the **Tobacco Settlement Fund's** total investment portfolio. The amounts invested, by currency, are as follows (amounts in thousands):

Foreign Currency	Short Term Holdings(a)	Equities	Private Equity	Total
Euro Currency Unit.....	\$ 1,306	\$ 62,517	\$ 3,147	\$ 66,970
Japanese Yen.....	(5,912)	27,905	-	21,993
British Pound Sterling....	(3,378)	22,415	-	19,037
Swiss Franc.....	1,351	13,925	-	15,276
Canadian Dollar.....	3,363	11,779	-	15,142
Hong Kong Dollar.....	-	7,906	-	7,906
Australian Dollar.....	-	6,020	-	6,020
Swedish Krona.....	1,538	2,456	-	3,994
Norwegian Krone.....	848	2,529	-	3,377
Danish Krone.....	3	3,028	-	3,031
South Korean Won.....	-	2,012	-	2,012
Singapore Dollar.....	-	1,748	-	1,748
Mexican New Peso.....	-	897	-	897
Russian New Rubel.....	-	675	-	675
South African Rand.....	-	625	-	625
Brazil Real.....	-	534	-	534
Thailand Baht.....	-	381	-	381
Polish Zloty.....	-	263	-	263
New Turkish Lira.....	-	250	-	250
Israeli Shekel.....	-	243	-	243
Indonesian Rupian.....	-	96	-	96
Total.....	\$ (881)	\$ 168,204	\$ 3,147	\$ 170,470

^a Short Term Holdings include receivables and payables for futures contracts, securities sold, and securities purchased.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Each Pension Trust Fund is exposed to foreign currency risk as part of meeting specific investing objectives or allocations among different classes of investments. The SERS is exposed to foreign currency risk primarily for equity securities at December 31, 2007 as follows (amounts in thousands):

Foreign Currency	Short Term Investments^a	Fixed Income	Equity	Real Estate	Alternative Investments	Total
Euro Currency Unit.....	\$ 21,949	\$ 6,367	\$ 1,521,034	\$ 42,047	\$ 233,454	\$ 1,824,851
British Pound Sterling.....	(5,166)	654	961,353	35,058	-	991,899
Japanese Yen.....	503	-	715,889	60,008	-	776,400
Hong Kong Dollar.....	(37)	-	360,465	61,956	-	422,384
Swiss Franc.....	2,899	-	333,979	-	-	336,878
South Korean Won.....	375	-	196,911	-	-	197,286
Australian Dollar.....	(1,747)	-	88,637	61,625	-	148,515
Singapore Dollar.....	526	-	90,663	13,696	-	104,885
Norwegian Krone.....	(2,712)	-	104,451	1,642	-	103,381
Brazil Real.....	823	38,944	55,951	2,376	-	98,094
Swedish Krona.....	(233)	-	95,442	1,536	-	96,745
New Taiwan Dollar.....	4,824	-	70,948	-	-	75,772
Canadian Dollar.....	21	6,725	39,454	5,432	-	51,632
South African Rand.....	51	-	48,586	-	-	48,637
Indian Rupee.....	(101)	-	47,869	-	-	47,768
Malaysian Ringgit.....	882	12,264	30,015	-	-	43,161
Mexican New Peso.....	144	9,743	23,277	-	-	33,164
Danish Krone.....	(904)	-	29,715	-	-	28,811
Thailand Baht.....	109	-	27,227	-	-	27,336
Other Currencies (15).....	59	26,396	92,441	-	1	118,897
Total.....	\$ 22,265	\$ 101,093	\$ 4,934,307	\$ 285,376	\$ 233,455	\$ 5,576,496

^a Includes receivables and payables as of December 31, 2007 for securities sold and purchased.

One of several investing choices that may be selected by DCP participants is the European, Australian and Far East (EAFE) Equity Index Fund, which owns international equities and is managed by an external manager. The EAFE Equity Index Fund within the DCP seeks to track the more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim that are a part of the Morgan Stanley Capital International EAFE Index. At December 31, 2007, the DCP had the following currency exposures related to equity securities (amounts in thousands):

Foreign Currency	Fair Value
Euro Currency Unit.....	\$ 46,043
British Pound Sterling.....	28,561
Japanese Yen.....	26,628
Swiss Franc.....	8,618
Australian Dollar.....	8,287
Hong Kong Dollar.....	3,047
Swedish Krona.....	2,941
Singapore Dollar.....	1,444
Norwegian Krone.....	1,392
Danish Krone.....	1,180
New Zealand Dollar.....	162
Chinese Yuan Renminbi.....	57
Cayman Islands Dollar.....	17
Total.....	\$ 128,377

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The PSERS is exposed to foreign currency risk for equity and other securities as follows (amounts in thousands):

Foreign Currency	Short Term Investments ^a	Fixed Income	Equity	Alternative Investments & Real Estate	Currency Hedge	Total
Euro Currency Unit.....	\$ 561,554	\$ 872,140	\$ 2,911,313	\$ 1,245,999	\$ (2,281,603)	\$ 3,309,403
British Pound Sterling....	(60,345)	231,969	2,682,672	6,745	(1,256,994)	1,604,047
Japanese Yen.....	(3,819)	179,157	2,425,174	-	(1,177,085)	1,423,427
Canadian Dollar.....	(119,393)	131,162	943,768	18,768	-	974,305
Australian Dollar.....	241,340	7,352	594,116	-	(248,944)	593,864
Hong Kong Dollar.....	3,799	-	704,625	-	(116,211)	592,213
Swedish Krona.....	142,750	112,328	157,499	-	-	412,577
South Korean Won.....	26,443	-	266,245	-	-	292,688
Singapore Dollar.....	(20,947)	18,010	271,740	-	-	268,803
Brazil Real.....	80,306	3,127	151,327	-	-	234,760
Other Currencies.....	(6,613)	27,047	1,967,199	-	(416,793)	1,570,840
Total.....	\$ 845,075	\$ 1,582,292	\$13,075,678	\$ 1,271,512	\$ (5,497,630)	\$11,276,927

^a Includes investment receivables and payables.

Securities Lending Program

The Treasury Department provides a securities lending program authorized by the Fiscal Code, which provides the Treasury Department with numerous custodial responsibilities; the securities program is an integral part of the custodial function. A contract between the Treasury Department and its custodian, acting as a lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. For securities lent which are not denominated in U.S. dollars or whose primary trading market is located outside the U.S., the fair value of collateral received must be at least 105 percent of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102 percent. Securities lent consist of both domestic and foreign equity securities and U.S. Treasury and foreign debt obligations. Almost all collateral received consists of cash; a small portion of collateral received consists of letters of credit, U.S. Treasury, corporate and/or foreign debt obligations. Collateral is marked to market daily. Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligations to borrowers are reported.

To the extent collateral received consists of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Treasury Department. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration – usually overnight. Therefore, the duration of lending agreements do not generally match the maturities of the investments made with the cash collateral. The resulting rate risk is mitigated by the lending agent's ability to reallocate lending agreements among program participants.

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 2008 (December 31, 2007 for the **State Workers Insurance Fund (SWIF)** and the State Employees' Retirement System (SERS)), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

At June 30, 2008 (December 31, 2007 for the **SWIF** and the **SERS**), there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The fair value of the securities lent, along with the type of investments lent, were as follows (amounts in thousands):

	Securities Lent	U.S. Government	U.S. Government	Corporate		Sovereign
	Amount	Obligations	Sponsored Enterprises	Obligations	Equities	Debt
Tobacco Settlement Fund.....	\$ 152,193	\$ 96,812	\$ 47,470	\$ 316	\$ 7,595	\$ -
State Lottery Fund.....	3,153	3,153	-	-	-	-
State Workers Insurance Fund.....	476,581	401,199	51,229	8,850	15,303	-
Tuition Payment Fund.....	216,245	153,021	9,377	1,412	52,435	-
Worker's Compensation Security Trust Fund.....	147,869	125,625	10,369	5,285	6,590	-
State Employees' Retirement System.....	2,952,521	1,698,326	16,737	111,308	1,059,880	66,271
Public School Employees' Retirement System.....	7,465,573	839,328	438,825	122,183	5,724,888	340,349
Treasury Investment Program.....	3,240,121	1,329,393	1,209,884	18,776	682,069	-

Financial Instruments with Off-Balance Sheet Risk
Tobacco Settlement Fund

The **Tobacco Settlement Fund** enters into derivatives and structured instruments primarily to enhance the performance and reduce volatility of its investment portfolio. It enters into futures contracts to gain or hedge exposure to certain investment markets and to manage interest rate risk.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The **Tobacco Settlement Fund** has entered into certain futures contracts maturing through December 2010. The notional value of these contracts at June 30, 2008 is as follows (amounts in thousands):

Futures Contract	Buy Contracts	Sell Contracts
U.S. Treasury futures....	\$ 45,877	\$ (20,245)
Eurodollar futures.....	24,850	(720)
S&P 500 futures.....	52,845	-

Statutory Liquidator Fund

The Statutory Liquidator Fund enters into derivatives and structured instruments primarily to enhance the performance and reduce volatility of its investment portfolio. It enters into futures contracts to gain or hedge exposure to certain investment markets and to manage interest rate risk.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The Statutory Liquidator Fund has entered into certain futures contracts maturing through December 2010. The notional value of these contracts at June 30, 2008 is as follows (amounts in thousands):

Futures Contract	Buy Contracts	Sell Contracts
U.S. Treasury futures.....	\$ 181,258	\$ (28,734)
Eurodollar futures.....	212,009	(8,808)

State Employees' Retirement System (SERS)

The SERS enters into certain derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its investment portfolio. It enters into foreign exchange contracts and foreign currency options contracts to hedge foreign currency exposure, futures contracts to gain or hedge exposure to certain equity markets and to manage interest rate risk, and swaps to gain equity exposure on its absolute return fund-of-funds investments, as well as hedge against the effects of inflation.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The SERS uses these contracts primarily to hedge the currency exposure of its international investments. To reduce the risk of counterparty nonperformance, the SERS generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in the SERS' net assets and represents the fair value of the contract on December 31. At December 31, 2007, the SERS had contracts to purchase and sell by major foreign currency were as follows (amounts in thousands):

Foreign Currency	Buy Contracts	Unrealized Gain/(Loss)	Sell Contracts	Unrealized Gain/(Loss)
Japanese Yen.....	\$ 65,781	\$ 2,409	\$ 61,499	\$ (2,174)
Swiss Franc.....	28,623	1,883	38,190	(1,772)
Euro Currency Unit.....	9,678	(30)	53,968	(946)
British Pound Sterling.....	5,222	(12)	95,476	1,835
Chinese Yuan Renminbi.....	3,598	37	1,886	(12)
Brazil Real.....	2,820	258	3,777	(287)
Norwegian Krone.....	2,742	12	-	-
Russian Ruble.....	2,214	61	-	-
Hong Kong Dollar.....	1,741	1	1,800	(1)
Australian Dollar.....	1,297	1	-	-
Other (10).....	2,515	(11)	3,344	(47)
Total.....	\$ 126,231	\$ 4,609	\$ 259,940	\$ (3,404)

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. The SERS pledges investment securities to provide the initial margin requirements on the futures contracts it buys.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The SERS has entered into certain futures contracts maturing through March 15, 2010. The notional value of these contracts at December 31, 2007 is as follows (amounts in thousands):

<u>Futures Contract Type</u>	<u>Buy Contracts</u>	<u>Sell Contracts</u>
U.S. Treasury futures.....	\$ 510,799	\$ 302,933
S&P 500 Futures.....	86,564	-
Russell 2000 Futures.....	14,595	-
Eurodollar futures.....	316,550	56,741

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, or credit worthiness. During 2007, the SERS entered into various types of swaps: commodity, S&P 500 total return, Russell 2000, MSCI-EAFE, MSCI Emerging Market Free (EMF), credit default, and interest rate. Under the commodity swap arrangement, the SERS receives the net return of the Goldman Sachs Commodity Index from the swap counterparty in return for a spread, which it pays to the counterparty. The commodity swaps are used as an inflation hedge and settle on a monthly basis. The S&P 500 total return swaps, Russell 2000 swaps, MSCI-EAFE swaps, and MSCI EMF swaps are used to gain equity exposure on its absolute return fund-of-funds. Under those arrangements, the SERS receives the net return of the respective equity indices in exchange for a short-term rate plus a spread. The SERS uses multiple contracts with counterparties as well as collateral posting requirements to manage its counterparty credit risk. The contracts have varying maturity dates ranging from February 20, 2008 through December 31, 2008. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The SERS' advisors use credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability. The SERS uses interest rate swaps as the most cost-effective way of gaining exposure to certain sectors of the fixed income market.

The table below presents the SERS' swap exposure at December 31, 2007 (amounts in thousands):

<u>Swap Type</u>	<u>Notional Value</u>	<u>Receivable/(Payable)</u>
S&P 500 Total Return Index.....	\$ 4,761,782	\$ 32,786
MSCI-EAFE Index.....	1,581,651	(17,591)
MSCI EMF Index.....	87,503	2,821
Goldman Sachs Commodity Index..	711,885	39,146
Russell 2000.....	349,517	(1,540)
Interest Rate.....	130,000	(236)
Credit Default.....	121,325	(2,729)

The SERS mitigates its legal risk on investment holdings, including the previously discussed instruments, by carefully selecting portfolio managers and extensively reviewing their documentation. It manages its exposure to market risk within risk limits set by management.

The SERS also indirectly holds foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds. Those collective trust funds invest in those investments directly and indirectly (through a securities lending collateral pool), to hedge foreign exchange exposure, to synthetically create equity-like returns, and to manage interest rate risk by altering the average life of the portfolio.

Deferred Compensation Program (DCP)

The DCP, through the Barclays Global Investors (BGI) managed accounts, indirectly holds certain derivative financial instruments. Certain accounts directly participate in futures contracts, which are standardized, exchanged-traded contracts

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

to purchase or sell a specific financial instrument at a predetermined price. The accounts enter into future contracts to gain exposure to certain equity markets. In those accounts where the use of futures contracts is permitted, BGI limits the accounts' positions to a small amount of the account's total assets, subject to each account's investment and credit risk guidelines. The exchange on which the futures are traded assumes counterparty risk and generally requires margin payments to minimize such risk.

The BGI-managed accounts may also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through a securities lending collateral pool. Those instruments are held to create "synthetic cash transactions." Generally, synthetic cash transactions involve investing in one or more instruments that taken either individually or together have an interest rate, credit, or liquidity exposure similar to that of a conventional money market instrument. This may be so even though none of the individual instruments themselves have money market risk. Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. As of December 31, 2007, the portfolio had no foreign exchange contracts. Swap agreements provide for periodic payments between parties based on the net difference in cash flows of underlying assets, indexes, or rates. To reduce the risk of counterparty nonperformance, the collateral pool generally enters into these contracts with institutions deemed to meet high standards of credit worthiness.

BGI mitigates its legal risk of derivative financial instruments by using them only in the accounts for which they are authorized. BGI manages its exposure to market risk within risk limits set for the accounts by buying and selling instruments or entering into offsetting positions. The following table discloses the futures contracts held and the derivatives held indirectly in the security lending collateral pool as of December 31, 2007 (amounts in thousands):

	<u>Notional Amount</u>
Equity Index Fund	
Futures directly held.....	\$ 5,543
Derivatives held indirectly in security lending cash collateral funds.....	12,469
Extended Market Fund	
Futures directly held.....	7,659
Derivatives held indirectly in security lending cash collateral funds.....	12,411
EAFE Equity Index Fund	
Futures directly held.....	4,477
Derivatives held indirectly in security lending cash collateral funds.....	1,968

Public School Employees' Retirement System (PSERS)

The PSERS enters into a variety of financial contracts, which include options and futures. The PSERS also enters into foreign exchange positions, such as forward and spot contracts to obtain or hedge foreign currency exposure; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury STRIPS. The PSERS is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The PSERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. As the PSERS generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

The notional or contractual amounts of derivatives indicate the extent of the PSERS' involvement in the various types and uses of derivative financial instruments and do not measure the PSERS' exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The following table summarizes the aggregate notional or contractual amounts for the PSERS' derivative financial instruments at June 30, 2008 (amounts in thousands):

Type of Derivative	Notional Value
Futures contracts – long.....	\$ 11,962,986
Futures contracts – short.....	5,046,611
Foreign exchange forward and spot contracts, gross.....	20,668,439
Options – calls purchased.....	154,767
Options – puts purchased.....	322,841
Options – calls sold.....	159,300
Options – puts sold.....	501,896
Swaps – total return.....	2,570,616
Swaps – interest rated.....	826,124

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the PSERS enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the PSERS has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2008 represent a restriction on the amount of assets available as of year-end to use for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The PSERS generally uses exchange listed currency, index, stock, and futures options. The PSERS has authorized an investment manager to write covered call stock index option spreads up to a notional amount of \$1.5 billion.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The \$20,668 million of foreign currency contracts outstanding at June 30, 2008 consists of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$8,392 million and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$12,276 million. The unrealized gain on contracts of (\$94 million) at June 30, 2008 is included in the PSERS' net assets and represents the fair value of the contracts. The PSERS has authorized an investment manager to manage a currency hedge portfolio consisting of foreign exchange spot and forward contracts, currency futures, and currency options to hedge up to a notional amount of \$7 billion of the MSCI-EAFE Index currencies to U.S. dollars.

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying indexes or interest rates. During the fiscal year ended June 30, 2008, the PSERS entered into total return swaps and interest rate swaps. Under the total return swap arrangements, the PSERS receives the net return of certain equity indexes in exchange for a short-term rate minus a spread. The payable on the total return swap contracts of (\$1.84 million) at June 30, 2008 is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates ranging from August 13, 2008 to April 15, 2010. Interest rate swap agreements involve the exchange by the PSERS with another party of their respective commitments to pay or receive interest, e.g. an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. The PSERS uses interest rate swaps as the most cost-effective way to gain exposure to certain sectors of the fixed income market. The receivable on the interest rate swap contracts of \$8.24 million at June 30, 2008 is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates ranging from July 31, 2008 to December 10, 2008.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2008 is \$2.6 million.

The PSERS invests in U.S. Treasury STRIPS, which essentially act as zero coupon bonds and are subject to market volatility from an increase or decrease in interest rates.

Through certain collective trust funds, the PSERS also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only STRIPS, and CMOs, to enhance the performance and reduce the volatility of their portfolios.

Discretely Presented Component Units**Authority for Deposits and Investments**

Component unit organizations typically control receipt and disbursement of their own deposits, often through a trustee. Enabling legislation provides varying authority for investments; several component unit organizations participate in the TIP.

Deposit Risks

At June 30, 2008, the Pennsylvania Higher Education Assistance Agency had \$14,400 of deposits with financial institutions in excess of federal depository insurance limits that were uninsured and collateralized following an agreement to pledge assets on a pooled basis to secure public deposits in Pennsylvania. The Pennsylvania Housing Finance Agency had \$28,088 of cash deposits that were uninsured and collateralized with securities held by the pledging financial institution, its trust department or agent, but not in its name. Commonwealth Financing Authority had \$434,976 in deposits that were uninsured and collateralized with securities held by the pledging bank's trust department not in the Authority's name. At June 30, 2008, the State System of Higher Education had \$834 uninsured and uncollateralized deposits; and \$18,346 uninsured and uncollateralized deposits, but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. The Philadelphia Regional Port Authority had \$2,387 in deposits uninsured but collateralized by the financial institution and \$1 in deposits that were uncollateralized. The Pennsylvania Infrastructure Investment Authority disclosed \$1,126 in deposits that were uninsured and uncollateralized. The Insurance Fraud Prevention Authority had deposits of \$159 that were uncollateralized (amounts in thousands).

Investment Risks

Risk Management Policies: At June 30, 2008 component unit policies for certain risks are established by governing boards; policies for the Pennsylvania Turnpike Commission are established by its bond indentures. Most of the organizations' policies address credit quality risk by establishing minimum NRSRA ratings for allowable investment purchases. Concentration risk is also avoided by most of the organizations by limiting the concentration of investments in any one issuer. Some organizations have policies in place that prohibit a certain percent of the overall portfolio, whereas others determine concentration limits based on security type. Custodial credit risk is typically avoided through registration. The Pennsylvania Higher Education Assistance Agency investment policy does not contain requirements that limit the exposure to custodial credit risk.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Investments by Type

At June 30, 2008 the discretely reported component units disclosed a total of \$3,553,413 in investments. This consists of over 99 percent fixed income securities (\$3,550,806), and the remaining less than one percent consists of common stock (\$2,504), and preferred stock (\$103). The investment types and related amounts are as follows (amounts in thousands):

Investment Type	Amount
Asset backed securities.....	\$ 54,308
Certificates of deposit.....	22
Commercial paper.....	260,504
Corporate obligations.....	235,559
Equities.....	2,504
Guaranteed investment contracts.....	309,454
Money markets.....	130,150
Mortgage backed securities.....	339,121
Mutual funds.....	25,233
Preferred equities.....	103
Repurchase agreements.....	738,252
State and municipal obligations.....	20,006
Treasury Investment Program.....	489,732
U.S. government obligations.....	948,465
Total.....	\$ 3,553,413

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold its agreement to a transaction, with any of the discretely presented component units, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. At June 30, 2008 the Pennsylvania Higher Education Assistance Agency had \$57,327 in commercial paper subject to custodial credit risk that were held by the same counterparty that was used to buy the securities (amounts in thousands).

Concentration Risk: Concentration risk is the risk of loss attributed to the magnitude of the organizations' investment in a single issuer. Several of the organizations limit concentration to five percent or more of their total investments, with the exception of U.S. Treasury and U.S. Government Agencies. The State System of Higher Education has policies that do not limit the concentration in any single issuer for corporate bonds, collateralized mortgage obligations, and asset-backed securities. The Pennsylvania Housing Finance Agency has not established a formal concentration risk policy. Also, among the organizations, the following concentrations existed as of June 30, 2008 (May 31, 2008 for the Pennsylvania Turnpike Commission) (amounts in thousands):

Issuer Name	PA Turnpike Commission	PA Housing Financing Authority	PA Higher Education Assistance Agency
Federal Home Loan Mortgage Corporation.....	\$ 133,876	\$ 86,616	\$ -
Federal National Mortgage Association.....	108,779	54,805	-
Federal Home Loan Bank.....	83,510	57,129	-
Federal Farm Credit Banks.....	-	53,958	-
Federated Treasury Obligations.....	-	-	102,760
MBIA, Inc.....	-	-	65,441
Trinity Plus Funding Co.....	-	-	121,206

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Credit Quality Risk: At June 30, 2008, \$3,550,806 of total discretely presented component unit investments of \$3,553,413 are fixed income investments, susceptible to credit quality rating. Of the amount of fixed income securities susceptible to credit quality rating, \$1,974,931 are rated and \$1,575,875 of fixed income investments do not have ratings available. The following table discloses aggregate fair value, by Moody's or Standard and Poor's credit quality rating category, at June 30, 2008 (May 31, 2008 for Pennsylvania Turnpike Commission) (amounts in thousands):

Moody's Investor Services (a)	Amount
Aaa.....	\$ 1,043,390
Aa	6,900
Aa.....	230,176
A.....	21,313
Baa.....	7,772
P1.....	210,826
Moody's Investor Services subtotal.....	\$ 1,520,377
Standard & Poor's	
AAA.....	\$ 311,295
AA.....	18,300
A.....	4,348
A-1.....	120,611
Standard & Poor's subtotal.....	\$ 454,554
Rated subtotal.....	\$ 1,974,931
Unrated	
Asset backed securities.....	\$ 1,090
Certificates of deposit.....	22
Corporate obligations.....	2,055
Guaranteed investment contracts.....	16,458
Money markets.....	130,150
Mortgage backed securities.....	18,031
Mutual funds.....	25,233
Repurchase agreements.....	660,714
Treasury group investment fund.....	489,732
U.S. government obligations (b).....	232,390
Unrated subtotal.....	\$ 1,575,875
Total Fixed Income Investments.....	\$ 3,550,806

^a The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Baa1 is shown as a rating of Baa in this table.

^b U.S. government obligations include all securities issued by the U.S. Treasury, U.S. Agencies, and U.S. Government Sponsored Enterprises (GSEs). These include securities that are both explicitly and implicitly guaranteed by the full faith and credit of the U.S. Government. Many of these securities are not usually rated by a NRSRA and have an implied rating of Aaa/AAA.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Interest Rate Risk: Interest rate risk is managed using different techniques: weighted average maturity, maximum maturity dates, effective duration, modified duration or operational cash needs. The following table discloses option-adjusted duration (in years) by investment type for the fixed income portfolio of the discretely presented component units, excluding the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, and the Pennsylvania Industrial Development Authority, at June 30, 2008 (May 31, 2008 for the Pennsylvania Turnpike Commission) (amounts in thousands):

Investment Type	Amount	Option-Adjusted Duration	Securities with no Duration
Asset backed securities.....	\$ 54,308	0.678	\$ -
Certificates of deposit.....	-	N/A	22
Commercial paper.....	203,177	0.030	-
Corporate obligations.....	225,288	1.368	55
Guaranteed investment contracts....	16,458	2.719	-
Mortgage backed securities.....	140,571	4.736	-
Mutual funds.....	3,661	1.810	21,572
Repurchase agreements.....	-	N/A	660,714
State & municipal obligations.....	20,006	10.348	-
Treasury investment program.....	489,732	0.086	-
U.S. government obligations.....	798,896	3.893	120
Total.....	\$ 1,952,097		\$ 682,483

The Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, and the Pennsylvania Industrial Development Authority do not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for those organizations at June 30, 2008 (amounts in thousands):

Investment Type	Matures in less than 1 year	Matures in 1 to 5 years	Matures in 6 to 10 years	Matures in more than 10 years	Total
Commercial paper.....	\$ 57,327	\$ -	\$ -	\$ -	\$ 57,327
Corporate obligations.....	2,000	6,258	1,958	-	10,216
Guaranteed investment contracts....	222,502	-	65,441	5,053	292,996
Money markets.....	130,150	-	-	-	130,150
Mortgage backed securities.....	5,983	191,158	-	1,409	198,550
Repurchase agreements.....	77,538	-	-	-	77,538
U.S. Government obligations.....	22,845	6,121	46,805	73,678	149,449
Total.....	\$ 518,345	\$ 203,537	\$ 114,204	\$ 80,140	\$ 916,226

Foreign Currency Risk: Foreign currency risk is the risk of an investment's value changing, advantageously or adversely, due to changes in currency exchange rates. The State System of Higher Education disclosed that \$75 of local investments were exposed to foreign currency risk. The amounts invested, by currency, are as follows (amounts in thousands):

Foreign Currency	Amount
British Pound Sterling.....	\$ 74
Euro Currency Unit.....	1
Total.....	\$ 75

Financial Instruments with Off-Balance Sheet Risk

As of June 30, 2008, the Pennsylvania Housing Finance Agency, the Pennsylvania Turnpike Commission, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Regional Port Authority, and the Pennsylvania Industrial Development Authority all owned financial instruments with off-balance sheet risk. To obtain further information regarding the nature and notional value of the financial instruments refer to their separately audited and issued financial statements.

NOTE E – CAPITAL ASSETS

A summary of capital assets by category at June 30, 2008 is as follows (amounts in thousands):

	Primary Government			Discretely Presented	
	Governmental		Business-Type	Component Units	
	Activities	Activities	Activities		
	General	Internal	Total	Enterprise	
	Capital Assets	Service	Governmental	Funds	
		Funds	Activities		
Land.....	\$ 473,095	\$ 6	\$ 473,101	\$ 323	\$ 236,811
Highway right-of-way.....	1,654,089	-	1,654,089	-	-
Buildings.....	5,692,696	5,225	5,697,921	40,097	2,584,189
Improvements other than buildings.....	508,173	200	508,373	-	242,912
Machinery and equipment.....	753,489	106,567	860,056	133,507	840,040
Library books and other.....	-	-	-	-	143,743
Turnpike infrastructure.....	-	-	-	-	4,613,052
Bridge infrastructure.....	7,829,509	-	7,829,509	-	-
Highway infrastructure.....	19,296,783	-	19,296,783	-	-
Waterway infrastructure.....	22,053	-	22,053	-	-
Other infrastructure.....	103,552	-	103,552	-	-
Construction in progress.....	493,071	-	493,071	5,563	378,940
Highway and bridge construction in progress.....	1,818,533	-	1,818,533	-	1,346,351
Total.....	<u>\$ 38,645,043</u>	<u>\$ 111,998</u>	<u>\$ 38,757,041</u>	<u>\$ 179,490</u>	<u>\$ 10,386,038</u>

Changes in general capital assets for the fiscal year ended June 30, 2008 are as follows (amounts in thousands):

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Non-Depreciable General Capital Assets:				
Land.....	\$ 431,003	\$ 42,092	\$ -	\$ 473,095
Highway right-of-way.....	1,567,684	86,405	-	1,654,089
Construction in progress.....	404,350	686,892	598,171	493,071
Transportation construction in progress.....	1,795,882	1,028,478	1,005,827	1,818,533
Subtotal.....	<u>4,198,919</u>	<u>1,843,867</u>	<u>1,603,998</u>	<u>4,438,788</u>
Depreciable General Capital Assets:				
Buildings.....	5,481,642	219,460	8,406	5,692,696
Improvements other than buildings.....	477,506	31,829	1,162	508,173
Machinery and equipment.....	744,506	71,226	62,243	753,489
Highway infrastructure.....	18,109,439	1,187,344	-	19,296,783
Bridge infrastructure.....	7,421,580	407,929	-	7,829,509
Waterway infrastructure.....	19,650	2,403	-	22,053
Other infrastructure.....	9,663	93,889	-	103,552
Subtotal.....	<u>32,263,986</u>	<u>2,014,080</u>	<u>71,811</u>	<u>34,206,255</u>
Total general capital assets.....	<u>\$ 36,462,905</u>	<u>\$ 3,857,947</u>	<u>\$ 1,675,809</u>	<u>\$ 38,645,043</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in general capital assets accumulated depreciation for the fiscal year ended June 30, 2008 are as follows (amounts in thousands):

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Buildings.....	\$ 2,057,920	\$ 124,157	\$ 668	\$ 2,181,409
Improvements other than buildings.....	218,828	14,287	575	232,540
Machinery and equipment.....	390,640	48,097	55,663	383,074
Highway infrastructure.....	8,276,525	713,159	-	8,989,684
Bridge infrastructure.....	1,691,149	153,450	-	1,844,599
Other infrastructure.....	3,664	734	-	4,398
Total accumulated depreciation.....	<u>\$ 12,638,726</u>	<u>\$ 1,053,884</u>	<u>\$ 56,906</u>	<u>\$ 13,635,704</u>

Depreciation expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2008 is as follows (amounts in thousands):

	General Capital Assets	Internal Service
Direction and supportive services.....	\$ 28,420	\$ -
Protection of persons and property.....	74,664	11,614
Public education.....	22,623	-
Health and human services.....	12,312	-
Economic development.....	201	-
Transportation.....	902,237	-
Recreation and cultural enrichment.....	13,427	-
Total depreciation expense.....	<u>\$ 1,053,884</u>	<u>\$ 11,614</u>

Changes in Internal Service funds capital assets for the fiscal year ended June 30, 2008 are as follows (amounts in thousands):

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Non-Depreciable Capital Assets:				
Land.....	\$ 6	\$ -	\$ -	\$ 6
Subtotal.....	<u>6</u>	<u>-</u>	<u>-</u>	<u>6</u>
Depreciable Capital Assets:				
Buildings.....	5,530	311	616	5,225
Improvements other than buildings.....	421	-	221	200
Machinery and equipment.....	99,823	11,192	4,448	106,567
Subtotal.....	<u>105,774</u>	<u>11,503</u>	<u>5,285</u>	<u>111,992</u>
Total Internal Service fund capital assets.....	<u>\$ 105,780</u>	<u>\$ 11,503</u>	<u>\$ 5,285</u>	<u>\$ 111,998</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in Internal Service fund capital assets accumulated depreciation for the fiscal year ended June 30, 2008 are as follows (amounts in thousands):

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Buildings.....	\$ 1,728	\$ 124	\$ 172	\$ 1,680
Improvements other than buildings.....	217	2	162	57
Machinery and equipment.....	60,352	11,488	3,566	68,274
Total accumulated depreciation.....	<u>\$ 62,297</u>	<u>\$ 11,614</u>	<u>\$ 3,900</u>	<u>\$ 70,011</u>

Changes in Enterprise fund capital assets for the fiscal year ended June 30, 2008 are as follows (amounts in thousands):

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Non-Depreciable Capital Assets:				
Land.....	\$ 323	\$ -	\$ -	\$ 323
Construction in progress.....	4,813	750	-	5,563
Subtotal.....	<u>5,136</u>	<u>750</u>	<u>-</u>	<u>5,886</u>
Depreciable Capital Assets:				
Buildings.....	40,656	-	559	40,097
Machinery and equipment.....	115,350	18,210	53	133,507
Subtotal.....	<u>156,006</u>	<u>18,210</u>	<u>612</u>	<u>173,604</u>
Total Enterprise fund capital assets.....	<u>\$ 161,142</u>	<u>\$ 18,960</u>	<u>\$ 612</u>	<u>\$ 179,490</u>

Changes in Enterprise fund capital assets accumulated depreciation for the fiscal year ended June 30, 2008 are as follows (amounts in thousands):

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008
Buildings.....	\$ 17,570	\$ 3,160	\$ 320	\$ 20,410
Machinery and equipment.....	70,187	12,777	2,491	80,473
Total accumulated depreciation.....	<u>\$ 87,757</u>	<u>\$ 15,937</u>	<u>\$ 2,811</u>	<u>\$ 100,883</u>

NOTE E – CAPITAL ASSETS (continued)

Construction in progress included in general capital assets at June 30, 2008 includes project information as follows (amounts in thousands):

	Project Authorization	Amounts Expended but not Capitalized at June 30, 2008	Authorization Available
Capitol Complex.....	\$ 230,549	\$ 170,307	\$ 60,242
Department of Corrections Institutions.....	139,632	35,972	103,660
Educational Institutions.....	260,827	106,963	153,864
State Parks and Forests.....	58,536	27,498	31,038
State-wide Radio Project.....	70,685	42,361	28,324
Veterans Homes and Military Armories.....	173,467	31,573	141,894
Department of Public Welfare Institutions.....	33,858	15,964	17,894
Transportation Facilities.....	45,275	19,204	26,071
Historical and Museum Commission Facilities.....	25,658	13,492	12,166
State Police Facilities.....	7,845	1,117	6,728
Agriculture Facilities.....	5,472	1,381	4,091
Other.....	31,244	27,239	4,005
Total.....	<u>\$ 1,083,048</u>	<u>\$ 493,071</u>	<u>\$ 589,977</u>

The Commonwealth's initial valuation of general capital assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986, general capital asset acquisitions are reported at cost or, for donations or confiscations, at fair market value. At June 30, 2008 the amount of general capital assets related to the initial 1986 valuation amounted to \$1,742 million and did not include highway, bridge or waterway infrastructure.

NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS

Tuition Benefits Payable

The reported liability for tuition benefits payable of \$1,321,995 (in thousands) of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2008, is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, investment experience and program expenses for the Guaranteed Savings Plan of the Tuition Account Program. The June 30, 2008 actuarial analysis includes several changes in assumptions to reflect the current view of tuition inflation and updated expense projections. The per-unit credit expense assumption was increased from \$0.490 to \$1.217. The effect of this change decreased the aggregate actuarial reserve (actuarial value of assets less liabilities) by \$5.8 million.

Insurance Loss Liability

The reported insurance loss liability of the **State Workers' Insurance Fund (SWIF)**, an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 3.75 at December 31, 2007 and 3.5 percent at December 31, 2006. There is uncertainty as to whether the reported liability will be supported by future claim experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability.

For the calendar years ended December 31, 2007 and 2006, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands).

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2007	\$1,522,869	\$479,975	\$30,659	\$63,992	\$278,260	\$1,691,251
2006	1,426,177	496,273	(45,826)	69,983	283,772	1,522,869

The current portion of the total **SWIF** insurance loss liability is \$336,823 and the noncurrent portion is \$1,354,428. Additionally, nonmajor Enterprise funds reported a noncurrent insurance loss liability of \$346 at June 30, 2008. Total reported current insurance loss liability amounts to \$336,823 and total noncurrent insurance loss liability amounts to \$1,354,774 (in thousands) at June 30, 2008.

Compensated Absences

The reported compensated absence liability for the Enterprise Funds totaled \$35,442 at June 30, 2008. Of that amount, the liability is primarily owed by the State Stores Fund (\$27,904), the **State Worker's Insurance Fund** (\$2,204), and the **State Lottery Fund** (\$3,121). The following summary provides aggregated information reported for June 30, 2007 compensated absence liabilities; additions and reductions during the fiscal year ended June 30, 2008 and reported compensated absence liabilities at June 30, 2008 (amounts in thousands):

<u>Liability at June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Liability at June 30, 2008</u>
\$ 32,808	\$ 26,213	\$ 23,579	\$ 35,442

Capital Lease Obligation

The **State Lottery Fund**, an Enterprise Fund, has entered into an agreement to lease vending machines used for lottery ticket sales. This agreement is an in-substance purchase (capital lease) and is reported as a capital lease obligation. All future minimum payments under the capital lease agreement (\$6,082) are due prior to June 30, 2009, with the present value of the net minimum lease payments as of June 30, 2008 amounting to \$5,939 and interest due of \$143 as of June 30, 2008 (amounts in thousands).

At June 30, 2008 proprietary fund capital assets included \$42.3 million of equipment being procured by this capital lease.

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE

Taxes Receivable: Taxes receivable reported on the Statement of Net Assets at June 30, 2008 consisted of the following (amounts in thousands):

Statement of Net Assets			
Governmental Activities			
	Current	Noncurrent	Total
Sales and use.....	\$ 877,701	\$ 210,913	\$ 1,088,614
Personal income.....	591,865	166,380	758,245
Corporation.....	370,632	866,444	1,237,076
Liquid fuels.....	165,247	-	165,247
Inheritance.....	346,934	107,710	454,644
Cigarette.....	62,216	-	62,216
Other.....	26,500	-	26,500
Total.....	<u>\$ 2,441,095</u>	<u>\$ 1,351,447</u>	<u>\$ 3,792,542</u>

Taxes receivable reported on the Balance Sheet for Governmental Funds at June 30, 2008 consisted of the following (amounts in thousands):

Fund Balance Sheets							
General Fund					Motor License Fund	Nonmajor Governmental Funds	Fiduciary Funds
Expected to be Collected					Expected to be Collected by	Expected to be Collected by	Expected to be Collected by
From					August 31, 2008	August 31, 2008	August 31, 2008
By	through	After					
August 31, 2008	June 30, 2009	June 30, 2009	Total		August 31, 2008	August 31, 2008	August 31, 2008
Sales and use.....	\$ 805,529	\$ 72,172	\$ 210,913	\$ 1,088,614	\$ -	\$ -	\$ 27,175
Personal income.....	419,785	172,080	166,380	758,245	-	-	-
Corporation.....	46,204	324,428	866,444	1,237,076	-	-	-
Liquid fuels.....	-	-	-	-	165,247	-	-
Inheritance.....	134,759	212,175	107,710	454,644	-	-	-
Cigarette.....	62,216	-	-	62,216	-	-	-
Other.....	-	-	-	-	-	26,500	1,673
Total.....	<u>\$ 1,468,493</u>	<u>\$ 780,855</u>	<u>\$ 1,351,447</u>	<u>\$ 3,600,795</u>	<u>\$ 165,247</u>	<u>\$ 26,500</u>	<u>\$ 28,848</u>

On the governmental funds balance sheet, the **General Fund** taxes receivable of \$2,132,302 expected to be collected after August 31, 2008 is reported as an unearned revenue liability. The total amount of taxes receivable reported on the governmental funds balance sheet, \$2,441,095 (\$2,249,348 reported in the **General Fund**, \$165,247 reported in the **Motor License Fund**, and \$26,500 reported in nonmajor governmental funds), expected to be collected from July 1, 2008 through June 30, 2009 is also reported as current taxes receivable in governmental activities on the Statement of Net Assets. The remaining **General Fund** taxes receivable of \$1,351,447 reported on the governmental funds balance sheet expected to be collected after June 30, 2009 is reported as noncurrent taxes receivable in governmental activities on the Statement of Net Assets. All of the revenue associated with the taxes receivable reported in governmental activities on the Statement of Net Assets is reported as tax revenue in governmental activities on the Statement of Activities (amounts in thousands).

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE (continued)

Loans Receivable: Loans receivable at June 30, 2008 consisted of the following (amounts in thousands):

	Primary Government				
	Governmental Activities	Special Revenue Funds	Enterprise Funds	Fiduciary Funds	Discretely Presented Component Units
Mortgage loans.....	\$ -	\$ -	\$ -	\$ -	\$ 4,493,643
Student loans.....	-	-	-	-	11,890,005
Economic development loans.....	10,751	18,703	227,443	-	765,243
Drinking water, storm water and sewer system loans.....	-	47,321	-	-	1,900,692
Vounteer fire company loans.....	-	-	108,686	-	-
Environmental program loans.....	-	9,634	-	-	-
Other notes and loans.....	110	-	-	554	2,096
	10,861	75,658	336,129	554	19,051,679
Less: allowance for uncollectible amounts.....	2,503	2,032	27,362	-	295,223
Loans receivable, net.....	\$ 8,358	\$ 73,626	\$ 308,767	\$ 554	\$ 18,756,456

The **General Fund** reported \$7,493 in loans due after June 30, 2009, Special Revenue funds reported \$68,159 in loans due after June 30, 2009 and the Enterprise funds reported \$255,382 in loans due after June 30, 2009. Discretely presented component units reported \$17,283,930 in loans receivable due after June 30, 2009 (amounts in thousands).

The **General Fund** reported \$8,358 in loans receivable for program objectives, all of which represented governmental activities lending and of which, \$7,493 is due after June 30, 2009. Agency Funds reported \$554 in loans receivable to replace underground storage tanks, of which \$172 is due after June 30, 2009 (amounts in thousands).

Lease Rentals Receivable: The Capital Facilities Fund, a Capital Projects fund, reports expenditure amounts related to construction projects for educational institutions funded through the issuance of general obligation bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the Capital Debt Fund, a Debt Service fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated unearned revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 2008 the total remaining minimum lease payments to be received were \$735, consisting of principal present value of \$553 and interest of \$182 (amounts in thousands).

The Pennsylvania Industrial Development Authority, a discretely presented component unit, reported a lease rental receivable with total remaining minimum payments to be received of \$8.28 million, consisting of principal present value of \$7.91 million and interest of \$.37 million, at June 30, 2008.

Minimum lease payments receivable from prior years and for the three fiscal years succeeding June 30, 2008 are as follows (amounts in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
Prior years	\$ 414	\$ -
2009.....	194	3,180
2010.....	127	3,180
2011.....	-	1,923

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE (continued)

Except for \$608 owed during June 30, 2009 to the primary government and \$3,180 owed to discretely presented component units, all amounts receivable under lease rentals are due after June 30, 2009 (amounts in thousands).

Governmental Funds Unearned Revenue: The **General Fund**, Special Revenue Funds, and Debt Service Funds reported unearned revenue at June 30, 2008. The following chart provides the portion of total unearned revenue which was 1) unavailable or 2) not yet earned as of June 30, 2008 (amounts in thousands):

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Unavailable.....	\$ 2,132,302	\$ 240,837	\$ -
Unearned.....	49,513	22,298	3,827
Total unearned revenue.....	<u>\$ 2,181,815</u>	<u>\$ 263,135</u>	<u>\$ 3,827</u>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Assets

Internal Balances

In the Statement of Net Assets, reported internal balances of (\$88,523)/\$87,694 for governmental activities/business-type activities differ by \$829 because the **State Workers' Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2007.

Fund Financial Statements

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2008 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$72,103 and \$10,447; aggregate nonmajor enterprise funds receivables amount to \$1,744 and \$1; aggregate internal service funds receivables amount to \$24,269 and \$552 (amounts in thousands):

FUND TYPE/FUND <u>PRIMARY GOVERNMENT</u>	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General Fund	\$ 38,711	\$ 742	\$ 100,474	\$ 2,236
<u>Special Revenue:</u>				
Motor License Fund	685	-	32,677	5,624
Tobacco Settlement Fund	3,305	-	7,070	-
Public Transportation Trust Fund.....	32,982	-	7	-
Pharmaceutical Assistance Fund.....	7,219	-	3	-
Agricultural Conservation Easement Purchase Fund.....	10,413	-	-	-
Public Transportation Assistance Fund.....	7,100	-	-	-
Vocational Rehabilitation Fund.....	217	-	2,046	-
Other Funds.....	232	-	1,504	301
	62,153	-	43,307	5,925
<u>Capital Project:</u>				
Capital Facilities Fund.....	7,705	10,447	106	-
Keystone Recreation, Park and Conservation Fund.....	6,235	-	1,199	-
	13,940	10,447	1,305	-
<u>Enterprise:</u>				
Unemployment Compensation Fund	3,305	384	7	-
State Lottery Fund	1	-	358	-
Tuition Payment	-	-	6	-
State Stores Fund.....	36	-	3,991	-
Rehabilitation Center Fund.....	1,590	-	37	-
Other Funds.....	118	1	68	-
	5,050	385	4,467	-
<u>Internal Service:</u>				
Purchasing Fund.....	21,115	549	358	-
Manufacturing Fund.....	3,154	3	171	-
	24,269	552	529	-
<u>Fiduciary - Pension Trust:</u>				
State Employees' Retirement System.....	10,387	3,091	-	-
Public School Employees' Retirement System.....	5,456	-	5,579	-
Deferred Compensation Fund.....	-	-	62	-
	15,843	3,091	5,641	-
Total primary government.....	\$ 159,966	\$ 15,217	\$ 155,723	\$ 8,161

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY GOVERNMENT	COMPONENT UNITS	PRIMARY GOVERNMENT	COMPONENT UNITS
Pennsylvania Turnpike Commission.....	\$ 7,427	\$ -	\$ -	\$ -
Pennsylvania Housing Finance Agency.....	-	26	4	80
Pennsylvania Infrastructure Investment Authority.....	-	80	92,678	26
Pennsylvania Higher Education Assistance Agency.....	-	-	135	-
State System of Higher Education.....	395	-	6,412	-
Patient Safety Trust Authority.....	2,179	-	7	-
Commonwealth Financing Authority.....	-	-	465	-
Other component units.....	-	-	8	-
Total component units.....	<u>\$ 10,001</u>	<u>\$ 106</u>	<u>\$ 99,709</u>	<u>\$ 106</u>

The amount of total reported interfund receivables of \$185,290 does not agree with total reported interfund payables of \$263,699 at June 30, 2008 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2008. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2008; the State Stores Fund, an Enterprise Fund, is reported at its fiscal year ended June 24, 2008; the amounts reported as interfund balances for the State Employees' Retirement System and Deferred Compensation Fund, Pension Trust Funds, the INVEST Program for Local Governments, an Investment Trust Fund, and the **State Workers' Insurance Fund**, an Enterprise Fund, are reported at their fiscal years ended December 31, 2007. The following presents a reconciliation of interfund balances reported at June 30, 2008 and those amounts that would have been reported if all Funds reported at the same fiscal year end (amounts in thousands):

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due from other funds.....	\$ 113,051	\$ 26,541	\$ 4,309	\$ -	\$ 143,901
Due from pension trust funds.....	1,753	2,778	11,534	-	16,065
Due from component units.....	11,189	937	3,091	106	15,323
Due from primary government.....	-	-	-	10,001	10,001
Total.....	<u>\$ 125,993</u>	<u>\$ 30,256</u>	<u>\$ 18,934</u>	<u>\$ 10,107</u>	<u>\$ 185,290</u>

Reported Interfund Receivables..... \$ 185,290

State Employees' Retirement System decrease in receivables from January 1, 2008 through June, 30, 2008.....	(8,320)
Pennsylvania Turnpike Commission decrease in receivables from June 1, 2008 through June 30, 2008.....	(1,911)
Interfund receivables reported as accounts receivable by component units.....	71
Interfund receivables reported as tax receivables by Fiduciary Funds.....	1,674
Payroll accrual at June 30, 2008 - receivables attributable to State Employees' Retirement System.....	6,408
General Fund receivable from Pennsylvania Infrastructure Investment Authority (full accrual).....	92,573

Reconciled Interfund Receivables..... \$ 275,785

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds.....	\$ 134,489	\$ 4,756	\$ 1,034	\$ -	\$ 140,279
Due to pension trust funds.....	10,597	240	4,607	-	15,444
Due to component units.....	8,161	-	-	106	8,267
Due to primary government.....	-	-	-	99,709	99,709
Total.....	<u>\$ 153,247</u>	<u>\$ 4,996</u>	<u>\$ 5,641</u>	<u>\$ 99,815</u>	<u>\$ 263,699</u>
Reported Interfund Payables.....					\$ 263,699
State Employees' Retirement System increase in payables from January 1, 2008 through June, 30, 2008.....					3,899
Deferred Compensation Fund decrease in payables from January 1, 2008 through June,30, 2008.....					(54)
Pennsylvania Turnpike Commission increase in payables from June 1, 2008 through June 30,2008.....					68
State Workers' Insurance Fund increase in payables from January 1, 2008 through June 30, 2008.....					347
INVEST Program for Local Governments increase in payables from January 1, 2008 through June 30, 2008.....					2
Interfund payables reported as accounts payable by component units.....					4,946
Interfund payables reported as accounts payable by Fiduciary Funds.....					2,878
Reconciled Interfund Payables.....					<u>\$ 275,785</u>

Advances – Fund Financial Statements

At June 30, 2008 the **General Fund** reported Advances to Other Funds of \$114,108. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund** and \$85,000 to the State Stores Fund, Enterprise Funds; \$2,175 to the **Motor License Fund** and \$10,333 to the Pharmaceutical Assistance Fund, Special Revenue Funds; and, \$14,300 to the Purchasing Fund, an Internal Service Fund. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the **State Workers' Insurance Fund**, which reported an advance of \$1,818 at its fiscal year ended December 31, 2007. At June 30, 2008 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, reported an Advance to Other Funds of \$3,000. This amount was advanced to the Small Business First Fund, an Enterprise Fund. Additionally, the Pennsylvania Infrastructure Bank Fund, an Enterprise Fund, reported an advance of \$1,400; the amount was advanced to the **Motor License Fund**, a Special Revenue Fund. All amounts advanced, with exception to a \$116 repayment from the **Motor License Fund** to the Pennsylvania Infrastructure Bank Fund, are expected to be repaid subsequent to June 30, 2009. The Underground Storage Tank Indemnification Fund, an Agency Fund, reported a \$70,500 statutory advance to the **General Fund** at June 30, 2008. Subsequent to June 30, 2009, \$62,500 (amounts in thousands) are expected to be repaid.

Primary Government Transactions with Discretely Presented Component Units

During the fiscal year ended June 30, 2008 (May 31, 2008 for PA Turnpike Commission), Commonwealth financial support reported by the discretely presented component units is (amounts in thousands):

State System of Higher Education (appropriation, grant, subsidy)	\$ 635,907
PA Higher Education Assistance Agency (appropriation, grant, subsidy).....	\$ 452,138
PA Turnpike Commission (oil franchise tax, vehicle registration fees)	\$ 88,592
Ben Franklin Technology Development Authority (appropriation, grant, subsidy).....	\$ 51,700
PA Infrastructure Investment Authority (capital contribution).....	\$ 11,370

During its fiscal year ended May 31, 2008, the PA Turnpike Commission provided \$450,000 to the **Motor License Fund** and \$300,000 to the Public Transportation Trust Fund under the statutory provisions of Act 44 of 2007 and the related Lease and Funding Agreement between the PA Turnpike Commission and the Commonwealth (amounts in thousands).

Transfers

A summary of transfers reported for the fiscal year ended June 30, 2008 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to \$1,484,218 during the fiscal year ended June 30, 2008 and include a \$278,400 transfer from the **State Lottery Fund** to the Pharmaceutical Assistance Fund. Aggregate nonmajor governmental fund transfers to other funds amount to \$192,967. Aggregate nonmajor proprietary transfers from other funds amount to \$46,809. Aggregate nonmajor proprietary fund transfers to other funds amount to \$82,068 (amounts in thousands):

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

PRIMARY GOVERNMENT	TRANSFERS	
	IN	OUT
General Fund.....	\$ 119,514	\$ 1,012,267
<u>Special Revenue:</u>		
Motor License Fund.....	11,204	84,837
Tobacco Settlement Fund.....	2	28,155
Environmental Stewardship Fund.....	44	33,085
Public Transportation Trust Fund.....	96,350	4,679
Gaming Fund.....	-	132,959
Hazardous Sites Cleanup Fund.....	12,966	-
Vocational Rehabilitation Fund.....	38,703	-
Pharmaceutical Assistance Fund.....	306,559	-
Public Transportation Assistance Fund.....	-	16,330
Educational Assistance Fund.....	8,101	-
Community College Capital Fund.....	44,506	-
Agricultural Conservation Easement Fund.....	7,100	-
Conservation District Fund.....	5,467	-
Other Funds.....	18,065	2,914
	<u>549,067</u>	<u>302,959</u>
<u>Debt Service:</u>		
Disaster Relief Redemption Fund.....	1,876	-
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	8,800	-
Capital Debt Fund.....	904,785	-
Pennsylvania Economic Revitalization Sinking Fund.....	510	-
Water Facilities Loan Redemption Fund.....	1,860	-
Volunteer Companies Loan Sinking Fund.....	403	-
Agricultural Conservation Easement Sinking Fund.....	1,830	-
Local Criminal Justice Sinking Fund.....	921	-
Keystone Recreation, Park and Conservation Sinking Fund.....	741	-
Growing Greener Bond Sinking Fund.....	16,585	-
Water Supply and Wastewater Treatment Sinking Fund.....	8,046	-
	<u>946,357</u>	<u>-</u>
<u>Capital Projects:</u>		
Capital Facilities Fund.....	-	3,000
<u>Enterprise:</u>		
Unemployment Compensation Fund.....	-	3,500
State Workers' Insurance Fund.....	281	-
State Lottery Fund.....	100,186	358,420
State Stores Fund.....	2,505	82,068
Pennsylvania Infrastructure Bank Fund.....	43,880	-
Other Funds.....	205	-
	<u>147,057</u>	<u>443,988</u>
<u>Internal Service:</u>		
Purchasing Fund.....	63	-
Manufacturing Fund.....	156	-
	<u>219</u>	<u>-</u>
Total transfers, fund financial statements.....	1,762,214	1,762,214
Less: net elimination of governmental fund transfers.....	<u>(1,465,283)</u>	<u>(1,465,283)</u>
Total transfers, Statement of Activities.....	<u>\$ 296,931</u>	<u>\$ 296,931</u>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

Assigned Investment Income: During the fiscal year ended June 30, 2008, certain assigning Funds, as follows, receive but do not financially report investment income that is assigned to (and reported by) another Fund for legal or contractual reasons. Investment income and related interfund transfers are reported by those Funds which assign/receive investment income for other than legal/contractual reasons (amounts in thousands):

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License	General	Legal/contractual	\$ 113
Liquid Fuels Tax	Motor License	Legal/contractual	\$ 443
Land and Water Development	Land and Water Development Sinking	Legal/contractual	\$ 67
Remining Financial Assurance	Land and Water Development Sinking	Other than legal/contractual	\$ 127
Fire Insurance Tax	State Insurance	Legal/contractual	\$ 1,174
Fire Insurance Tax	Municipal Pension Aid	Legal/contractual	\$ 661

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS**Pension Systems**

Commonwealth laws established contributory defined benefit pension plans covering substantially all Commonwealth and public school employees. Generally, Commonwealth employees are members of the State Employees' Retirement System (SERS) and public school employees are members of the Public School Employees' Retirement System (PSERS). Both the SERS and the PSERS are reported as Pension Trust Funds, Fiduciary funds. Both the SERS and the PSERS issue stand-alone, audited financial statements, which are available to the public. Written requests for SERS or PSERS financial statements and other financial statement inquiries should be directed to the following addresses:

State Employees' Retirement System
30 North Third Street, Suite 150
Harrisburg, PA 17101-1716

Public School Employees' Retirement System
Bureau of Communications
P.O. Box 125
Harrisburg, PA 17108-0125

State Employees' Retirement System

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement system established to provide pension benefits for employees of state government and certain other organizations. At December 31, 2007 there were 108 employer state agencies and other organizations participating in the SERS.

Retirement Benefits: Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish and amend benefit provisions. The SERS provides retirement, death, and disability benefits. Retirement benefits generally vest after five years of credited service. Employees who retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal (unreduced) annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service.

Most members of the SERS, and all covered employees hired after June 30, 2001 (except State Police officers and certain members of the judiciary and legislators), are Class AA members, pursuant to Act 2001-9 (Act 9), signed into law on May 17, 2001. Among other things, Act 9 provides for general annual retirement benefits of 2.5 percent of the member's highest three-year average salary (final average salary) multiplied by years of service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding their year of retirement). The annual benefit is 75 percent of salary for 25 or more years of service and 50 percent of salary for 20-24 years of service. Judges are entitled to a benefit of 4 percent of final average salary for each of the first 10 years of service and 3 percent for subsequent years. District Justices are entitled to a benefit of 3 percent of final average salary for each year of service. For legislators in office on May 17, 2001 Act 9 established Class D-4 membership whereby the general annual benefit is 3 percent of final average salary for each year of service. The general annual benefit for full retirement for Class A members is 2 percent of the member's highest three-year salary multiplied by years of service.

Funding Policy: Commonwealth law determines all member contribution rates. The active plan member contribution rate is 6.25 percent of covered payroll for employees in Class AA; for Class A members, the contribution rate is 5 percent. Higher contributions are required for certain members of the General Assembly and judges and district justices who elect higher contribution rates. The SERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. The employer contribution rates are established on a periodic basis and are intended to provide employer contributions which, when combined with member contributions and investment returns, are adequate to accumulate assets to pay benefits when due.

Act 9 provided that new benefits arising therefrom were to be funded over a ten-year period, with level dollar funding, beginning July 1, 2002. Act 9 also provided that all the existing actuarial assets and liabilities be combined and amortized over a ten-year period using level dollar funding and future actuarial gains and losses were to be amortized using ten-year level dollar funding. On December 10, 2003, Governor Rendell signed Act 2003-40 (Act 40) into law. The significant provisions of the law were to change certain actuarial methods and periods used to amortize actuarial assets and liabilities, as follows: Pre-Act 9 funding credit, ten years; Act 9 liability, 30 years; post-2000 gains and losses, 30 years; and, existing and future cost of living adjustments, ten years.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Also, pursuant to Act 40, beginning July 1, 2005, the SERS established employer contribution rates which resulted in total 2005, 2006 and 2007 employer contributions which were lower than the minimum annual required contribution as defined by GASB Statement No. 25. Since the SERS is a cost-sharing multiple-employer defined benefit retirement system and all SERS-required employer contributions were made, no unfunded pension liability is reported by the Commonwealth as of June 30, 2008.

During each of the three years ended December 31, the annual required employer contributions (amounts in thousands) and the related percentage of that amount actually contributed are as follows (amounts in thousands):

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2007	\$ 617,253	39.3
2006	\$ 548,745	35.6
2005	\$ 319,190	46.1

At December 31, 2007, the SERS disclosed no long-term contracts for contributions to the plan.

Summary of Significant Accounting Policies: The SERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employee salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: Investments are reported at fair value, which is the amount that the SERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. The investment in the Commonwealth Treasury short-term investment pool is reported at cost plus allocated interest, which approximates fair value. Collateral received under the Commonwealth Treasury securities lending program is reported at cost plus accrued interest, which approximates fair value. United States government obligations, corporate and foreign bonds and notes, and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. The System has entered into certain swap contracts with notional amounts equivalent to the SERS' investment in fund-of-hedge funds which are designed to produce low volatility, uncorrelated, diversified returns that will help preserve and enhance the real value of the SERS investments over long periods of time. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream.

Alternative investments, which include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments, are valued based on estimated fair value established by valuation committees, which are subject to an annual independent audit. Foreign exchange and futures contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. The fair values of equity and commodity swaps are determined no less than monthly based on the return of the underlying indices, which is generally exchanged for a short-term rate plus a spread.

The Collective Trust Funds (CTF) consists primarily of domestic and international institutional mutual and index funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. The CTF is subject to an annual independent audit.

Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are reported as investment purchases payable. Investment expenses consist of investment managers' fees and those expenses directly related to the SERS' investment operations.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**Public School Employees' Retirement System**

Plan Description: The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employee members. At June 30, 2008 there were 739 participating employers, generally school districts. In relation to the PSERS, the Commonwealth is a non-employer contributor organization.

Benefits: The PSERS provides retirement, death, disability retirement, and health care benefits. In most cases, retirement benefits vest after 5 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age. Benefits for full retirement are generally equal to 2 percent (Membership Class T-C) or 2.5 percent (Membership Class T-D) of the member's final average salary multiplied by number of years of credited service. The Commonwealth has the authority to establish or amend benefit provisions.

Funding Policy: The Public School Employees' Retirement Code provides that the PSERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. The active plan member contribution rates for employees in Membership Class T-C and T-D hired before July 22, 1983 are 5.25 and 6.50 percent of covered payroll, respectively; for employees in Membership Class T-C and T-D hired after July 21, 1983, the rates are 6.25 and 7.50 percent, respectively. The increased member contribution rates for Class T-D became effective January 1, 2002. Commonwealth law determines member contribution rates.

Since 1995, employers defined as school entities (school districts, area vocational-technical schools, and intermediate units) are required to pay the entire employer contribution. The Commonwealth partially reimburses school entities in accordance with Act 29 of 1994. The amount of reimbursement is at least one half of the total employer contribution. For employers that are not school entities, the employer and the Commonwealth pay the employer contribution equally to the PSERS; no Commonwealth reimbursement occurs.

Act 40 of 2003 amended the actuarial cost method in three areas that affect employer contribution rates. Act 40 changed the amortization period from 10 years to 30 years for: unfunded liabilities accrued as a result of Act 9 of 2001; outstanding balances of net actuarial losses during the fiscal years ended June 30, 2001 and 2002; and net gains and losses in future years. Act 40 continued a 10-year amortization period for unfunded liabilities accrued prior to Act 9 of 2001; any future active member improvements; and any retiree cost-of-living adjustments. Finally, Act 40 established an employer contribution rate 'floor' of 4 percent, exclusive of the premium assistance contribution rate, beginning July 1, 2004.

During each of the three fiscal years ended June 30, the annual required employer contributions (in thousands) and the related percentage of that amount actually contributed are as follows:

<u>Fiscal year</u> <u>Ended June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2008	\$ 1,852,238	41
2007	\$ 1,708,821	39
2006	\$ 1,328,373	34

At June 30, 2008, the PSERS disclosed that \$152,000 of \$253,356 (in thousands) of member receivables for purchases of service credit is due subsequent to June 30, 2009.

Summary of Significant Accounting Policies: The PSERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employees' salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Investment Valuation: Investments are reported at fair value, which is the amount that the PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are reported at cost, which approximates fair value, unless they have a published market price or quotation from national security exchanges or securities pricing services, in which case they are reported at the published market price. Fixed income securities and common and preferred stocks are generally reported based on published market prices and quotations from national security exchanges or securities pricing services. Securities that are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at cost or the present value of projected future net income.

Alternative investments, which include private equity, private debt, venture capital and equity real estate, are primarily valued based on amounts established by valuation committees; such amounts include cash flow activity through fiscal year-end. Futures contracts, foreign exchange contracts, and options are marked-to-market daily; changes in market value are recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The funds do not pay interest or dividends to shareholders and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which the Securities and Exchange Commission has regulatory oversight.

Other Postemployment Benefits**Primary Government**

The Commonwealth established and sponsors two primary plans which provide postemployment benefits other than pensions (OPEB). These two plans are the Retired Employees Health Program (REHP) and the Retired Pennsylvania State Police Program (RPSPP). These two plans are administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF), which acts as a third-party administrator and administers the REHP and RPSPP under an administrative agreement with the Commonwealth. Both plans are single employer defined benefit OPEB plans. Nearly all Commonwealth agencies and several discretely presented component units participate in the REHP. The Pennsylvania House of Representatives (House), the Pennsylvania Senate (Senate) and the Pennsylvania Judiciary (Judiciary) have established and sponsor their own OPEB plans. All OPEB plans and benefit provisions therein have been established under pertinent statutory authority. The REHP is provided, in part, as a part of collective bargaining agreements with most Commonwealth labor unions. The RPSPP is provided as a part of collective bargaining agreements with certain Commonwealth labor unions.

Benefit provisions included in the REHP, RPSPP, House, Senate and Judiciary plans are established and may be amended by the establishing sponsor of the given OPEB plan. Each OPEB plan provides postemployment healthcare benefits and, to varying degrees, some of the non-REHP OPEB plans provide specific dental, hearing, vision, life insurance, long term disability and long term care benefits. Among the different OPEB plans, the REHP is the largest of such plans and provides only postemployment healthcare benefits. None of the OPEB plans 1) issues a stand-alone financial report nor 2) is included in the financial statements of a public employee retirement system.

REHP contribution requirements are established by the Office of Administration and the Governor's Budget Office. All employing agencies and certain plan members must contribute specified amounts to the REHP. For the fiscal year ended June 30, 2008, almost all employing agencies contributed \$240 (whole dollars) for each current, active employee per biweekly pay period to fund the REHP. Several employing agencies contribute under comparable payment arrangements. Effective July 1, 2003 certain changes to prescription formulary and certain member co-payment costs were made. Beginning July 1, 2004 other periodic changes to both member contributions and REHP benefits were made. Starting July 1, 2005, plan members with membership dates after June 30, 2004, contribute between 0.5 and 2.0 percent of their final salary. In September 2007 a three tiered prescription copayment was introduced and in May 2008 a Medicare Private Fee-For-Service plan was started.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

RPSPP contribution requirements are established within collective bargaining agreements. During the fiscal year ended June 30, 2008 employing agencies contributed \$700 (whole dollars) for each current, active employee per biweekly pay period to fund the RPSPP. RPSPP plan members were not required to make contributions.

The REHP and RPSPP funding rates needed to fund pay-as-you-go annuitant health care costs are embodied in the Commonwealth's annual budget. As a result, for the fiscal year ended June 30, 2008, the Commonwealth funded \$530 million and \$64 million of annuitant health care claims and administrative costs for the REHP and RPSPP, respectively. Any additional contributions to prefund annuitant health care costs are determined annually by the Commonwealth. During the fiscal year ended June 30, 2008, advanced funding of \$60 million for the REHP and \$50.8 million for the RPSPP was contributed to the Other Postemployment Benefits Investment Pool, a Pension (and Other Employee Benefit) Trust Fund, to fully fund the REHP's annual required contribution (ARC) of \$590.4 million and to fund \$114.8 million (95.43 percent) of the RPSPP's ARC of \$120.3 million.

Annual required contributions and actual contributions – primary government OPEB plans:

As of and for the fiscal year ended June 30, 2008 (transition year)	Annual Required Contributions	Actual Contributions	Percentage Contributed
REHP	\$ 590.4	\$ 590.4	100.00
RPSPP	120.3	114.8	95.43
PA Judiciary	36.4	16.2	44.51
PA House of Representatives	35.9	8.3	23.12
PA Senate	40.5	15.9	39.26
Total primary government	\$ 823.5	\$ 745.6	90.54

(amounts in millions)

For the primary government, for all OPEB plans, based on total actual contributions of \$745.6 during the fiscal year ended June 30, 2008 in relation to the total annual required contributions of \$ 823.5 for the fiscal year, an unfunded OPEB liability of \$ 77.9 (in millions) is reported as of June 30, 2008.

As of and for the fiscal year ended June 30, 2008 (transition year)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Estimated Covered Payroll	UAAL as a Percentage of Covered Payroll
REHP	\$ 38.5	\$ 7,297.5	\$ 7,259.0	0.53	\$ 3,863.1	187.91
RPSPP	53.3	1,833.1	1,779.8	2.91	314.0	566.82
PA Judiciary	-	400.3	400.3	-	179.6	222.88
PA House of Representatives	-	287.5	287.5	-	102.7	279.94
PA Senate	-	230.2	230.2	-	49.7	463.18
Total primary government	\$ 91.8	\$ 10,048.6	\$ 9,956.8	0.91	\$ 4,509.1	220.82

(amounts in millions)

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

The REHP and RPSPP data in the preceding charts was obtained from an actuarial valuation, prepared by an independent actuary, as of July 1, 2007 using census data collected as of April 2007 and health care claims costs for calendar year 2006. The valuation measurements result, in part, from estimates of the value of reported amounts and assumptions about the probability of events far into the future and such actuarially determined estimates are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Also, the valuation measurements are based, in part, on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the Commonwealth and its employing agencies and the plan members through July 1, 2007. Inherently, the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial measurements were made using a long-term perspective and, consistent with that perspective, the different actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in both actuarial accrued liabilities and the actuarial value of assets.

Specific actuarial assumptions for REHP and RPSPP:

Actuarial cost method:	Projected Unit Credit
Method used to determine actuarial value of assets:	Fair Value
Investment returns:	REHP: 8.5 percent; RPSPP: 6.2 percent

Healthcare cost trend increases:	<u>Initial Rate</u>		<u>Ultimate Rate</u>	
	REHP	RPSPP	REHP	RPSPP
<u>Medicare-Retiree</u>				
Medical Benefits (REHP)	8.0	--	4.5	--
<u>Non-Medicare Retiree</u>				
Medical Benefits (REHP)	8.0	--	5.0	--
Medical Benefits (RPSPP)	--	8.0	--	5.0
Pharmacy Benefits	6.46	10.0	5.0	5.0
Dental Benefits (RPSPP)	--	7.0	--	5.0
Part B Premiums	11.0	11.0	4.0	4.0

Amortization method:	Level percent of payroll
Amortization period:	30 years, using fresh start each year

A schedule of funded status/funding progress for primary government OPEB plans is included in Required Supplementary Information, following the Notes to the Financial Statements.

Discretely Presented Component Units

Each discretely presently component unit with employees participates in the Commonwealth's REHP except for the Pennsylvania Turnpike Commission and the Pennsylvania Housing Finance Agency, which have both established and sponsor their own, separate OPEB plans. The State System of Higher Education (SSHE), another discretely presented component unit, participates in the REHP, for certain employees, as well as its own, separate SSHE OPEB plan. All separate, non-REHP plans, have been established under pertinent statutory authority. All benefit provisions and contributions are established by the plan sponsors.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

As of and for the fiscal year ended June 30, 2008 (transition year)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (%)	Estimated Covered Payroll	UAAL as a Percentage of Covered Payroll
REHP Participants						
State System of Higher Education	\$ 1.28	\$ 242.17	\$ 240.89	.52	\$ 128.2	187.9
Higher Education Assistance Agency	1.08	205.72	204.64	.52	108.9	187.9
All other REHP participants	0.08	15.13	15.06	.52	8.0	187.9
Non-REHP Plans						
PA Turnpike Commission (May 31, 2008)	\$ 14.0	\$ 228.07	\$ 214.067	6.10	\$ 118.6	180.6
PA Housing Finance Agency	-	28.07	28.072	-	13.4	209.8
State System of Higher Education	-	1,026.39	1,026.39	-	472.5	217.0

(amounts in millions)

As of and for the fiscal year ended June 30, 2008 (transition year, except for State System of Higher Education)	Annual Required Contributions/ Annual OPEB Cost	Actual Contributions	Percentage Contributed
PA Turnpike Commission	\$ 19.5	\$ 20.5	105.6
PA Housing Finance Agency	3.4	.3	9.6
State System of Higher Education	Contribution 82.7 Cost 83.2	23.3	28.0

(amounts in millions)

Additional disclosures for the three non-REHP participating OPEB plans are available from the separately-issued audited financial statements of the three discretely presented component unit plan sponsors.

**NOTE J - SHORT-TERM DEBT, DEMAND REVENUE BONDS PAYABLE,
NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS**

Primary Government

During the fiscal year ended June 30, 2008, the Commonwealth did not issue any tax or bond anticipation notes or any other short-term debt and no short-term debt was repaid. At June 30, 2008 and 2007, no short-term debt was outstanding except for the current portion of a governmental activities statutory liability for an other financing obligation to the Underground Storage Tank Indemnification Fund, an Agency Fund, at June 30, 2008 amounting to \$8 million, and at June 30, 2007 amounting to \$6 million; the noncurrent portion of this statutory liability, also reported as an other financing obligation, amounted to \$62.5 million at June 30, 2008 and amounted to \$70.5 million at June 30, 2007.

Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported \$9,489,975 of demand revenue bonds, \$2,472,562 of notes payable and \$238,407 of other obligations, consisting of student loan financings of \$1,084,019, student loan floating rate notes of \$1,388,543, capital financings of \$76,766, term financings of \$68,205 and lines of credit of \$94,035, net of unamortized discount of \$599 at June 30, 2008 as follows (amounts in thousands):

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>
Student loan demand revenue bonds due 2017-2047, at weighted average interest rates of 5.33 and 4.91 percent at June 30, 2008 and 2007, respectively.....	\$ 9,099,900	\$ 400,000	\$ -	\$ 9,499,900
Less: deferred amount on current refundings of student loan demand revenue bonds.....	10,724	-	799	9,925
Total demand revenue bonds payable.....	<u>\$ 9,089,176</u>	<u>\$ 400,000</u>	<u>\$ (799)</u>	<u>\$ 9,489,975</u>
Notes payable:				
Student loan financings, due on demand at weighted-average interest rates of 2.96 and 5.67 percent at June 30, 2008 and 2007, respectively.....	\$ 960,919	\$ 660,100	\$ 537,000	\$ 1,084,019
Student loan floating rate notes, due 2016-2038 at weighted average interest rates of 2.93 and 5.45 percent at June 30, 2008 and 2007, respectively.....	1,547,106	-	158,563	1,388,543
Total notes payable.....	<u>\$ 2,508,025</u>	<u>\$ 660,100</u>	<u>\$ 695,563</u>	<u>\$ 2,472,562</u>
Capital and other financing obligations:				
Capital financings, due 2008-2019, at weighted average interest rates of 5.88 and 5.98 percent at June 30, 2008 and 2007, respectively.....	\$ 74,467	\$ 5,188	\$ 2,889	\$ 76,766
Term financings, due 2008-2030, at weighted average interest rates of 5.09 percent at both June 30, 2008 and 2007.....	69,930	-	1,725	\$ 68,205
Line of credit, due 2009-2011, at weighted average interest rates of 5.20 and 6.32 percent at June 30, 2008 and 2007, respectively.....	44,000	50,035	-	\$ 94,035
Subtotal.....	188,397	55,223	4,614	239,006
Less: unamortized discount.....	674	-	75	599
Total capital and other financing obligations.....	<u>\$ 187,723</u>	<u>\$ 55,223</u>	<u>\$ 4,539</u>	<u>\$ 238,407</u>

**NOTE J – SHORT-TERM DEBT, DEMAND REVENUE BONDS PAYABLE,
NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)**

The note and bond indentures, among other things, require the PHEAA to comply with various covenants including minimum parity levels as defined, student loan and investment yields, and program expenses. The demand bonds payable are subject to purchase, at par plus accrued interest, by the PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid from 2007 through 2015. The PHEAA is required to pay annual commitment fees ranging from 10 to 32 basis points on the stated amount of the letter of credit coverage. At June 30, 2008 total liquidity coverage was \$2.2 billion.

All student loan demand revenue bonds payable and financing notes payable are collateralized by student loans and investments. At June 30, 2008, \$12.0 billion of debt was collateralized by \$12.0 billion of student loan principal and related interest receivable and \$283.3 million of investments and related interest receivable. Capital financings are collateralized with capital assets. Amounts due under other lines of credit are generally unsecured.

Debt service requirements subsequent to June 30, 2008, based upon stated maturities of bonds payable, notes payable and other financing obligations are as follows (amounts in thousands):

Year of Maturity	Student Loan Bonds and Notes		Other Financing Obligations	
	Principal	Interest	Principal	Interest
2009.....	\$ 505,671	\$ 362,364	\$ 28,043	\$ 11,629
2010.....	578,348	341,180	41,795	10,110
2011.....	-	339,616	101,548	6,320
2012.....	-	339,616	4,099	3,310
2013.....	-	339,616	2,911	3,130
2014-18.....	412,488	1,669,697	13,480	13,649
2019-23.....	643,970	1,497,963	14,800	10,139
2024-28.....	774,500	1,389,243	18,710	5,900
2029-33.....	474,500	1,294,491	13,620	1,033
2034-38.....	1,719,485	1,210,724	-	-
2039-43.....	2,113,500	892,234	-	-
2044-49.....	4,750,000	328,174	-	-
Total.....	<u>\$ 11,972,462</u>	<u>\$ 10,004,918</u>	<u>\$ 239,006</u>	<u>\$ 65,220</u>
Reported as:				
Demand revenue bonds payable.....	\$ 9,489,975		\$ -	
Add: Deferred amount on current refundings.....	9,925		-	
Total principal owed on demand revenue bonds payable.....	<u>9,499,900</u>		<u>-</u>	
Notes payable - current.....	1,084,019		-	
Notes payable - non-current.....	1,388,543		-	
Other financing obligations, current.....	-		100,043	
Other financing obligations, non-current.....	-		138,364	
Add: Unamortized discount.....	-		599	
Total principal.....	<u>\$ 11,972,462</u>		<u>\$ 239,006</u>	

The PHEAA has \$12.0 billion of student loan bonds and notes that are variable-rate debt, of which \$2.1 billion resets based upon auctions every seven days, \$6.5 billion resets based upon auctions every 28 days, \$791.0 million resets based upon auctions every 35 days, \$1.5 billion is indexed to the 3-month LIBOR and the remaining \$784 million is indexed to the 1-month LIBOR. PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA.

In addition to the PHEAA's reported current notes payable of \$1,084,019 at June 30, 2008, the Philadelphia Regional Port Authority (PRPA) reported current notes payable of \$388. Also, in addition to the PHEAA's reported non-current notes payable of \$1,388,543 at June 30, 2008, component unit organizations of the State System of Higher Education reported non-current notes payable of \$154,227; the Philadelphia Shipyard Development Corporation (PSDC) reported non-current notes payable of \$22,611 (at its December 31, 2007 year end); and the PRPA reported non-current notes payable of \$2,020. Total reported notes payable, current and non-current, for all discretely presented component units totaled \$1,084,407 and \$1,567,401, respectively, at June 30, 2008 (December 31, 2007 for the PSDC) (amounts in thousands).

NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS

Long-term obligations of the Commonwealth's governmental activities at June 30, 2008 and changes for the fiscal year ended June 30, 2008 are as follows (amounts in thousands):

	Issue	Interest	Maturity	Bonds	Balance			Balance
	Dates	Rates	Dates	Authorized	July 1, 2007	Additions	Reductions	June 30, 2008
GENERAL LONG-TERM OBLIGATIONS			Through	But Unissued				
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities.....	1992-08	3.45-5.50%	2028	\$ 55,555,355	\$ 4,258,095	\$ 737,000	\$ 395,100	\$ 4,599,995
Disaster Relief.....	2000-01	5.00-6.00%	2014	105,908	6,505	-	1,510	4,995
Land and Water Development.....	1992	6.00-6.25%	2012	300	1,270	-	180	1,090
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	1992-98	5.00-6.25%	2012	50,000	870	-	360	510
Vietnam Conflict Veterans								
Compensation.....	-	-	-	3,000	-	-	-	-
Water Facilities Loan.....	1992	6.00-6.25%	2012	11,500	9,295	-	1,330	7,965
Pennsylvania Economic Revitalization.....	1992	6.00-6.25%	2012	14,000	2,540	-	365	2,175
Pennsylvania Infrastructure								
Investment Authority.....	1992-07	3.50-6.25%	2027	152,000	127,850	-	5,890	121,960
Agricultural Conservation Easement								
Purchase.....	1992-98	4.50-6.25%	2012	-	8,230	-	4,385	3,845
Local Criminal Justice.....	1997-08	4.00-5.25%	2028	3,000	5,485	1,500	1,020	5,965
Keystone Recreation, Park and								
Conservation.....	1997	5.00%	2008	-	950	-	700	250
Water Supply and Wastewater								
Treatment.....	2005-07	3.45-5.50%	2027	59,000	132,440	58,000	1,860	188,580
Growing Greener.....	2005-08	3.45-5.50%	2028	305,500	208,590	109,500	6,130	311,960
Persian Gulf Conflict Veterans								
Compensation.....	2008	4.00-5.00%	2028	13,000	-	7,000	-	7,000
Refunding Bonds.....	1992-08	4.00-6.40%	2021	-	3,092,161	190,908	335,142	2,947,927
Total principal.....				56,303,563	7,854,281	1,103,908	753,972	8,204,217
Unamortized premium on bonds issued.....				-	560,179	61,277	34,350	587,106
Unamortized deferred net refunded loss.....				-	(168,786)	(5,117)	(15,191)	(158,712)
Total general obligation bonds payable.....				56,303,563	8,245,674	1,160,068	773,131	8,632,611
Other General Long-Term Obligations								
Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....	-	-	-	-	4,010	67	232	3,845
Capital Lease Obligations.....	-	-	-	-	36,639	462	3,300	33,801
Self-Insurance---Note M *.....	-	-	-	-	760,227	604,149	625,094	739,282
Compensated Absences *.....	-	-	-	-	692,825	483,224	451,666	724,383
Other	-	-	-	-	713,887	139,514	116,338	737,063
Subtotal.....				-	2,207,588	1,227,416	1,196,630	2,238,374
TOTAL GENERAL LONG-TERM OBLIGATIONS.....				\$ 56,303,563	\$ 10,453,262	\$ 2,387,484	\$ 1,969,761	\$ 10,870,985

* The estimated current portion of self-insurance and compensated absence liabilities is \$161,413 and \$102,657, respectively (amounts in thousands).

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

Revenue bond obligations of discretely presented component units at June 30, 2008 (May 31, 2008 for the Pennsylvania Turnpike Commission (PTC)) and changes during the fiscal year then ended are as follows (amounts in thousands):

	Issue	Interest	Maturity	Bonds	Balance			Balance
	Dates	Rates	Dates	Authorized	July 1, 2007	Additions	Reductions	June 30, 2008
REVENUE BONDS PAYABLE	Dates	Rates	Through	But Unissued				
Philadelphia Regional Port Authority.....	2003	5.19%	2021		\$ 43,900	\$ -	\$ 2,200	\$ 41,700
Pennsylvania Housing Finance Agency.....	1990-08	various	2038		4,010,675	1,076,826	811,058	4,276,443
Pennsylvania Industrial Development Authority.....	1994-08	various	2024		425,765	140,290	180,160	385,895
Pennsylvania Turnpike Commission.....	1998-08	various	2041		2,708,750	1,412,165	284,075	3,836,840
Commonwealth Financing Authority.....	2005-08	3.10-5.60%	2027		552,220	187,500	18,115	721,605
Pennsylvania Infrastructure Investment Authority.....	1998-05	2.00-5.00%	2014		61,040	-	13,100	47,940
Total principal obligations.....					7,802,350	2,816,781	1,308,708	9,310,423
Less: Bond discounts.....	-	-	-	-	(9,630)	(3,411)	(859)	(12,182)
Add: Bond premiums.....	-	-	-	-	68,304	13,861	4,403	77,762
Less: Deferred net refunded loss.....	-	-	-	-	(100,607)	(8,636)	(9,357)	(99,886)
TOTAL					\$ 7,760,417	\$ 2,818,595	\$ 1,302,895	\$ 9,276,117

Additionally, the Port of Pittsburgh Commission and component unit organizations of the State System of Higher Education reported \$2,173 and \$687,753, respectively, at June 30, 2008 for total revenue bonds payable for all component units of \$9,966,043. Total reported current and non-current revenue bonds payable were \$222,255 and \$9,743,788, respectively, at June 30, 2008 (May 31, 2008 for the PTC) (amounts in thousands).

Primary Government

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. The **General Fund**, the **Motor License Fund** and the PA Gaming Economic Development & Tourism Fund transferred amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2008 these three Funds transferred \$855,079, \$41,747 and \$7,959, respectively, to the Capital Debt Fund, which reported \$898,872 (nearly 95 percent) of total Debt Service funds principal and interest expenditures of \$944,025 (amounts in thousands). Typically, except for Catastrophic Loss Benefits Claims, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are mostly funded by the **General Fund** and/or the **Motor License Fund**. In specific, limited instances, a variety of individual Funds will fund some obligations; such instances include capital assets being procured using long-term vendor or other financing; where employees earn compensated absences; or where self-insurance claims originate.

The total "Additions" of \$1,160,068 for General Obligation Bonds Payable at June 30, 2008 consists of total bond and refunding bond proceeds of \$965,234 and \$203,633, respectively, for Governmental Funds (including premium of \$61,277), less net principal accretion on maturing debt for capital appreciation bonds of \$3,682 less deferred net refunded loss of \$5,117 during the fiscal year ended June 30, 2008. As part of the total "Additions" the total principal of \$1,103,908 for General Obligations Bonds Payable consists of bonds issued of \$913,000 and refunding bonds issued of \$194,590, less net principal accretion on capital appreciation bonds of \$3,682.

The total "Reductions" of \$773,131 for General Obligation Bonds Payable from Tax Revenues at June 30, 2008 consists of total principal of \$753,972, plus \$34,350 of bond premium that was amortized and credited to bond interest expense in the Statement of Activities (unamortized premium in the Statement of Net Assets at June 30, 2008 is \$587,106), less \$15,191 of deferred net refunded loss that was amortized and charged to bond interest expense in the Statement of Activities (unamortized deferred net refunded loss in the Statement of Net Assets at June 30, 2008 is \$158,712) (amounts in thousands):

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

	<u>Additions</u>	<u>Reductions</u>
Bonds/refunding bonds issued.....	\$ 1,107,590	\$ 753,972
Net principal accretion.....	(3,682)	-
Total Principal.....	1,103,908	753,972
Unamortized premium on bond/refunding bond issued.....	61,277	34,350
Unamortized deferred net refunded loss.....	(5,117)	(15,191)
Changes in general obligation bonds payable.....	<u>\$ 1,160,068</u>	<u>\$ 773,131</u>

The Commonwealth uses fiscal agents to process payments for the servicing of certain bond issues. Additional cash with fiscal agents is held by the Federal government for unemployment compensation claims.

The balance outstanding at June 30, 2008 for general obligation refunding bonds includes \$4 million of accreted value for capital appreciation bonds. No principal or interest is payable on the capital appreciation bonds until maturity.

Included in "Other" for Other General Long-Term Obligations payable from workers' compensation assessments, investment income and/or **General Fund** tax revenues are the following at June 30, 2008 (amounts in thousands):

Workers' Compensation Security Trust Claims.....	\$ 525,885
Catastrophic Loss Benefits Claims.....	86,227
Public Utility Realty Tax Act (PURTA).....	28,000
Litigation--Note N.....	95,100
Restricted Receipts.....	1,851
Total.....	<u>\$ 737,063</u>

The Workers' Compensation Security Trust Fund provides for payment of valid claims under the Workers' Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The Catastrophic Loss Benefits Trust Fund provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The PURTA provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a **General Fund** revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. The other amounts included in General Long-Term Obligations at June 30, 2008 relating to Workers' Compensation Claims, Catastrophic Loss Benefits Claims, and Litigation are not payable with currently expendable available financial resources.

The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$54.4 billion as of August 31, 2008, with net debt outstanding of \$7.07 billion.

Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Infrastructure Investment Authority, discretely presented component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 2008 (May 31, 2008 for the PTC) include unamortized bond discount, unamortized bond premium, and deferred net refunded losses of \$12.1 million, \$77.8 million, and \$99.9 million, respectively.

The following tables present annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 2008 (May 31, 2008 for the Pennsylvania Turnpike Commission) (amounts in thousands):

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

Primary Government

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014-18</u>	<u>2019-23</u>
GENERAL OBLIGATION BONDS:							
Capital Facilities.....	\$ 571,573	\$ 528,509	\$ 523,209	\$ 469,308	\$ 431,160	\$ 1,633,200	\$ 1,506,558
Disaster Relief.....	1,794	1,708	1,622	178	171	163	-
Land and Water Development.....	251	255	257	253	253	-	-
Nursing Home Loan Development.....	-	-	-	-	-	-	-
Volunteer Companies Loan.....	239	86	82	82	83	-	-
Vietnam Conflict Veterans Compensation.....	-	-	-	-	-	-	-
Water Facilities Loan.....	1,858	1,856	1,852	1,850	1,846	-	-
Pennsylvania Economic Revitalization.....	507	509	503	505	505	-	-
Pennsylvania Infrastructure Investment Authority.....	12,154	11,422	11,404	11,285	11,213	45,345	45,332
Agricultural Conservation Easement Purchase.....	1,650	676	672	670	670	-	-
Local Criminal Justice.....	994	577	565	563	506	2,116	1,992
Keystone Recreation, Park and Conservation.....	256	-	-	-	-	-	-
Water Supply and Wastewater Treatment.....	14,797	14,795	14,814	14,807	14,799	74,142	74,407
Growing Greener.....	25,113	25,118	25,112	25,119	25,117	125,634	126,502
Persian Gulf Conflict Veterans.....	541	539	538	537	536	2,703	2,829
Refunding Bonds.....	369,631	378,091	365,411	392,691	379,054	1,424,273	536,573
Total Principal and Interest.....	1,001,358	964,141	946,041	917,848	865,913	3,307,576	2,294,193
Less: Interest Payments.....	398,553	367,135	335,751	304,328	273,077	970,610	464,274
Total General Obligation Bonds.....	602,805	597,006	610,290	613,520	592,836	2,336,966	1,829,919
Other General Long-Term Obligations.....	377,708	121,539	115,133	104,458	103,678	574,784	464,374
TOTAL GENERAL LONG-TERM OBLIGATIONS	\$ 980,513	\$ 718,545	\$ 725,423	\$ 717,978	\$ 696,514	\$ 2,911,750	\$ 2,294,293

The portion of Total General Long-Term Obligations principal due by June 30, 2009 amounts to \$980,513 (in thousands).

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

Primary Government (continued)

	<u>2024-28</u>	<u>2029-33</u>	<u>2034-38</u>	<u>2039-43</u>	<u>2044-48</u>	<u>Total</u>
GENERAL OBLIGATION BONDS:						
Capital Facilities.....	\$ 919,690	\$ -	\$ -	\$ -	\$ -	\$ 6,583,207
Disaster Relief.....	-	-	-	-	-	5,636
Land and Water Development.....	-	-	-	-	-	1,269
Nursing Home Loan Development.....	-	-	-	-	-	-
Volunteer Companies Loan.....	-	-	-	-	-	572
Vietnam Conflict Veterans Compensation.....	-	-	-	-	-	-
Water Facilities Loan.....	-	-	-	-	-	9,262
Pennsylvania Economic Revitalization.....	-	-	-	-	-	2,529
Pennsylvania Infrastructure Investment Authority.....	33,876	-	-	-	-	182,031
Agricultural Conservation Easement Purchase.....	-	-	-	-	-	4,338
Local Criminal Justice.....	1,141	-	-	-	-	8,454
Keystone Recreation, Park and Conservation.....	-	-	-	-	-	256
Water Supply and Wastewater Treatment.....	68,310	-	-	-	-	290,871
Growing Greener.....	106,478	-	-	-	-	484,193
Persian Gulf Conflict Veterans.....	2,873	-	-	-	-	11,096
Refunding Bonds.....	-	-	-	-	-	3,845,724
Total Principal and Interest.....	1,132,368	-	-	-	-	11,429,438
Less: Interest Payments.....	111,493	-	-	-	-	3,225,221
Total General Obligation Bonds.....	1,020,875	-	-	-	-	8,204,217
Other General Long-Term Obligations.....	376,698	-	-	-	-	2,238,372
TOTAL GENERAL LONG-TERM OBLIGATIONS.....	\$ 1,397,573	\$ -	\$ -	\$ -	\$ -	\$ 10,442,589

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

DISCRETELY PRESENTED COMPONENT UNITS

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014-18</u>	<u>2019-23</u>
Philadelphia Regional Port Authority.....	\$ 4,406	\$ 4,391	\$ 4,456	\$ 4,427	\$ 4,378	\$ 22,155	\$ 13,197
Pennsylvania Housing Finance Agency.....	264,549	277,884	261,099	258,187	251,469	1,260,950	1,192,388
Pennsylvania Industrial Development Authority.....	10,492	42,756	42,396	39,318	38,304	191,387	125,490
Pennsylvania Turnpike Commission.....	202,164	733,846	191,677	192,226	193,059	978,330	871,005
Commonwealth Financing Authority.....	63,422	63,422	63,428	63,422	63,419	317,144	317,163
Pennsylvania Infrastructure Investment Authority.....	14,687	13,607	9,991	7,054	3,913	4,028	-
Total Principal and Interest.....	559,720	1,135,906	573,047	564,634	554,542	2,773,994	2,519,243
Less: Interest Payments.....	337,465	331,149	308,551	298,017	287,043	1,259,715	957,695
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 222,255	\$ 804,757	\$ 264,496	\$ 266,617	\$ 267,499	\$ 1,514,279	\$ 1,561,548
	<u>2024-28</u>	<u>2029-33</u>	<u>2034-38</u>	<u>2039-43</u>	<u>Total</u>		
Philadelphia Regional Port Authority.....	\$ -	\$ -	\$ -	\$ -	\$ 57,410		
Pennsylvania Housing Finance Agency.....	1,144,563	977,656	612,779	21,008	6,522,532		
Pennsylvania Industrial Development Authority.....	77,838	-	-	-	567,981		
Pennsylvania Turnpike Commission.....	882,179	879,487	506,099	154,115	5,784,187		
Commonwealth Financing Authority.....	190,958	-	-	-	1,142,378		
Pennsylvania Infrastructure Investment Authority.....	-	-	-	-	53,280		
Total Principal and Interest.....	2,295,538	1,857,143	1,118,878	175,123	14,127,768		
Less: Interest Payments.....	616,881	331,163	86,268	3,398	4,817,345		
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 1,678,657	\$ 1,525,980	\$ 1,032,610	\$ 171,725	\$ 9,310,423		

Additionally, the Port of Pittsburgh Commission and component unit organizations of the State System of Higher Education reported \$2,173 and \$687,753, respectively, of revenue bond principal obligations at June 30, 2008 (amounts in thousands).

The Commonwealth has entered into certain agreements to lease various facilities and equipment. Such agreements are in-substance purchases (capital leases) and are reported as Capital Lease Obligations. In addition, the Commonwealth also makes purchases using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments under capital leases and installment purchase obligations, together with the present value of the net minimum lease payments as of June 30, 2008 (amounts in thousands):

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

	<u>Primary Government</u>		<u>Discretely Presented</u>
	<u>Capital</u>	<u>Installment</u>	<u>Component Unit</u>
	<u>Lease</u>	<u>Purchase</u>	<u>State System</u>
	<u>Obligations</u>	<u>Obligations</u>	<u>of</u>
			<u>Higher</u>
			<u>Education</u>
Fiscal Year Ending June 30			
2009.....	\$ 6,710	\$ 943	\$ 60,947
2010.....	6,473	849	59,957
2011.....	6,350	795	56,797
2012.....	6,247	583	51,531
2013.....	6,178	507	51,146
2014-18.....	18,632	751	283,550
2019-23.....	-	-	229,083
2024-28.....	-	-	87,844
2029-33.....	-	-	21,167
2034-37.....	-	-	15,873
Total minimum lease payments.....	50,590	4,428	917,895
Less: amount representing estimated executory cost included in minimum lease payment.....	6,481	-	-
Net minimum lease payments and Installment purchases.....	44,109	4,428	917,895
Less: amount representing interest.....	10,308	583	281,025
Total Capital Lease and Installment Purchase Obligations.....	\$ 33,801	\$ 3,845	\$ 636,870

At June 30, 2008 general capital assets included \$89.7 million of buildings and \$8.3 million of equipment being procured by capital leases. A total of \$16.6 million in general capital assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 2008 reported by the State System of Higher Education (SSHE), a discretely presented component unit, relate to various capital projects currently under construction for which a related public financing authority is the lessor. Revenue bonds were issued by the public financing authority to provide funding for these capital projects. SSHE capital assets include \$202.9 million of construction in progress related to capital leases at June 30, 2008.

Conduit Debt

The State Public School Building Authority (SPSBA), a discretely presented component unit, finances construction and improvement projects for public schools through the issuance of tax-exempt instruments (bonds, notes or other obligations) for the purpose of making lower cost tax-exempt financing available to school districts and community colleges. The debt instruments issued by the SPSBA represent limited obligations payable solely from lease/loan payments made by the borrowing institutions and related assets held by trustees. At June 30, 2008 the SPSBA has \$1.90 billion of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Higher Educational Facilities Authority (PHEFA), a discretely presented component unit, finances projects through the issuance of tax-exempt instruments (bonds, notes or other obligations) to provide a source of tax-exempt financing for colleges and universities. The debt instruments issued by the PHEFA represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees. At June 30, 2008 the PHEFA has \$5.62 billion of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

**NOTE K – GENERAL LONG-TERM OBLIGATIONS –
GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)**

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 2008 the PEDFA had \$1.743 billion of debt outstanding. Neither the PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Energy Development Authority (PEDA) finances projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustees to the entity served by the bond issuance. The PEDA had \$43.4 million in revenue bonds outstanding at June 30, 2008. Neither the PEDA nor the Commonwealth has any obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

NOTE L - REFUNDED DEBT**Primary Government**

During the fiscal year ended June 30, 2008, the Commonwealth issued \$114.4 million and \$80.2 million in general obligation bonds, First Refunding Series of 2007 and First Refunding Series of 2008, respectively, with average interest rates of 5.00 percent and 4.69 percent to advance refund \$116.4 million and \$82.3 million of previously issued general obligation bonds with average interest rates of 5.125 percent and 4.5 percent. The net refunding bond proceeds of \$119.3 million (including bond premium of \$5.0 million) and \$84.3 million (including bond premium of \$4.2 million), respectively, after payment of underwriting fees, insurance and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the Commonwealth's financial statements. The Commonwealth refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by \$4.8 million and \$3.1 million, respectively, and to obtain an economic gain of \$4.1 million and \$2.2 million.

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 2008, \$1,510.8 million of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements were defeased through advance refundings.

Discretely Presented Component Units

During the fiscal year ended June 30, 2008, in current refundings, the Pennsylvania Housing Finance Agency (PHFA) redeemed prior to maturity \$161 million of certain Single Family Mortgage Revenue Bonds. A deferred loss of \$484 thousand and an economic gain of \$7.1 million resulted from the refundings. The PHFA reduced its aggregate debt service payment as a result of these transactions by a total of \$12.4 million over the next 30 years. Also, in early extinguishments, the PHFA redeemed prior to maturity \$51.8 million of certain Revenue Bonds resulting in current year expense of \$229 thousand during the fiscal year ended June 30, 2008. In prior years, the PHFA defeased Multifamily Residential Development Bonds, Issue H. At June 30, 2008, \$2.7 million of bonds outstanding that were previously reported by the PHFA have been defeased through advance refundings.

In May 2008, the Pennsylvania Turnpike Commission (PTC) issued Series 2008 A Multi-Modal Refunding Bonds in the amount of \$233.5 million to replace certain 2006 bonds. A deferred loss of \$2.2 million resulted from this advance refunding. At May 31, 2008, \$993 million of bonds outstanding that were previously reported by the PTC have been defeased through refundings.

At June 30, 2008, \$33.9 million of bonds that were previously reported by the Pennsylvania Infrastructure Investment Authority have been defeased through refundings.

NOTE M – SELF-INSURANCE

The Commonwealth is self-insured for statutory workers' compensation, which includes indemnity and medical benefits (employee disability) for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has \$1 million retention with excess commercial insurance coverage up to \$350 million per occurrence. The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks. Accrued liabilities for statutory workers' compensation and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2008. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2008. No accrued liability has been reported for property losses.

At June 30, 2008, none of the accrued liabilities for governmental activities were payable from current expendable available financial resources. It is anticipated that the **General Fund** and the **Motor License Fund**, respectively, will fund governmental activities liabilities of \$511,964 and \$206,754. Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$1,628), the **State Workers' Insurance Fund** (\$1,541) and the State Stores Fund (\$19,686), all Enterprise Funds. All accrued self-insurance liabilities at June 30, 2008 are summarized as follows (amounts in thousands):

	Governmental Activities		Business Type Activities		Fiduciary Fund Types	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Employee disability	\$ 94,156	\$ 341,368	\$5,186	\$ 18,806	\$ 84	\$ 305
Annuitant medical/hospital .	42,682	-	-	-	-	-
Automobile tort.....	3,450	16,371	-	-	-	-
Employee tort.....	5,000	50,772	-	-	-	-
General tort.....	1,125	38,044	-	-	-	-
Transportation	<u>15,000</u>	<u>131,316</u>	-	-	-	-
Totals	<u>\$161,413</u>	<u>\$ 577,871</u>	<u>\$5,186</u>	<u>\$ 18,806</u>	<u>\$ 84</u>	<u>\$ 305</u>

The following summary provides aggregated information on June 30, 2007 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2008; and reported self-insurance liabilities at June 30, 2008 (amounts in thousands):

	June 30, 2007	Incurred Claims		Payments		June 30, 2008
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability	\$ 432,905	\$ 72,983	\$ 36,792	\$ 11,753	\$ 71,022	\$ 459,905
Annuitant medical/hospital .	48,025	512,410	-	469,728	48,025	42,682
Automobile tort.....	24,578	5,351	(6,627)	1,126	2,355	19,821
Employee tort.....	55,874	12,405	(5,849)	281	6,377	55,772
General tort.....	43,360	8,741	(12,108)	48	776	39,169
Transportation	<u>178,673</u>	<u>32,682</u>	<u>(52,630)</u>	<u>448</u>	<u>11,961</u>	<u>146,316</u>
Totals	<u>\$ 783,415</u>	<u>\$ 644,572</u>	<u>\$ (40,422)</u>	<u>\$ 483,384</u>	<u>\$ 140,516</u>	<u>\$ 763,665</u>

NOTE M – SELF-INSURANCE (continued)

The following summary provides aggregated information on June 30, 2006 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2007; and reported self-insurance liabilities at June 30, 2007 (amounts in thousands):

	June 30, 2006	Incurred Claims		Payments		June 30, 2007
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability	\$ 417,721	\$ 62,735	\$ 23,947	\$ 9,848	\$ 61,650	\$ 432,905
Annuitant medical/hospital .	43,574	445,830	-	397,805	43,574	48,025
Automobile tort.....	18,035	5,796	3,317	1,043	1,527	24,578
Employee tort.....	34,440	9,818	17,082	20	5,446	55,874
General tort.....	41,360	6,356	(3,380)	29	947	43,360
Transportation	202,892	31,604	(45,268)	407	10,148	178,673
Totals	<u>\$ 758,022</u>	<u>\$ 562,139</u>	<u>\$ (4,302)</u>	<u>\$ 409,152</u>	<u>\$123,292</u>	<u>\$ 783,415</u>

NOTE N – COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2008, the Department of Transportation (DOT) and at May 31, 2008, the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit, had contractual commitments of approximately \$2,419 million and \$1,133 million, respectively, for various DOT highway construction and mass transit projects and for various PTC projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$6.2 billion at June 30, 2008. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Investment Commitments: At December 31, 2007, the SERS had contractual commitments totaling approximately \$4 billion to fund future alternative investments and \$591 million to fund future real estate investments.

Loan Commitments: At June 30, 2008, primary government funds had approved \$90.8 in loans that had not been disbursed. Also at June 30, 2008, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency	\$	51
Pennsylvania Infrastructure Investment Authority.....	\$	278
Commonwealth Financing Authority	\$	182

Operating Lease Commitments: As of June 30, 2008, the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2008 were as follows (amounts in thousands):

Fiscal year ending June 30:	<u>Amount</u>
2009.....	\$ 296,677
2010.....	178,389
2011.....	140,459
2012.....	104,445
2013.....	79,301
2014-2018.....	121,129
2019-2023.....	28,002
2024-2028.....	<u>5,440</u>
Total Minimum Lease Payments.....	<u>\$ 953,842</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2008 amounted to \$274.7 million.

Child Support Payments: At June 30, 2008, the Commonwealth was contingently liable for approximately \$26.1 million in payments received by a contractor to be used for child support payments.

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has reported accrued liabilities at June 30, 2008 with respect to torts as described in Note M for probable losses, and, separately, other General Long-Term Obligations with respect to litigation cases in the amount of \$95.1 million for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible, for which liabilities have not been reported as of June 30, 2008. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$95 million to \$614 million for the **General Fund**; \$1 million to \$193 million for the **Motor License Fund**, a Special Revenue Fund; and \$.1 million to \$1.1 billion of possible additional liabilities for the State Employees' Retirement System, a fiduciary fund. The range of potential liability for governmental activities was from \$96 million to \$807 million; there is no potential liability for business-type activities at June 30, 2008.

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$15 million to \$367 million at June 30, 2008. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

Loan Guarantees: The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, guarantees loans made by private lenders to certain resident students. Total original principal of outstanding guarantees issued by PHEAA approximated \$51 billion at June 30, 2008. Under the Federal Family Education Loan Program, as amended, the PHEAA has entered into agreements with the U.S. Department of Education for reinsurance of death, disability, bankruptcy, default, school closure and borrower ineligibility claims paid to lenders. Pursuant to these agreements, PHEAA receives reimbursement of claims paid to lenders, provided that PHEAA is in compliance with numerous Federal requirements. Reinsurance rates vary from 75 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA and upon the time period when specific loans were guaranteed by PHEAA. During the fiscal year ended June 30, 2008, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the U.S. Department of Education.

The Commonwealth Financing Agency (CFA), a discretely presented component unit, through various economic development programs, provided loan guarantees for the fiscal years ended June 30 as follows (amounts in thousands):

	<u>2008</u>	<u>2007</u>
First industries loan guarantees.....	\$ 18,141	\$ 9,220
Tax increment financing guarantees.....	30,000	15,000
Second stage loan guarantees	2,785	2,660
Venture capital guarantees.....	<u>197,500</u>	<u>172,500</u>
Total loan guarantees	<u><u>\$ 248,426</u></u>	<u><u>\$ 199,380</u></u>

Through June 30, 2008 the CFA has not been called upon, with respect to any loan guarantees, to make principal or interest payments on behalf of the ultimate borrowers.

Lottery Prizes: The **State Lottery Fund**, an Enterprise Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes, which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 2008, the amount of future payments owed to prizewinners was \$1,020 million. To satisfy its financial obligation to these prizewinners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 2008, prizewinners had voluntarily assigned future payments of \$479 million.

Student Loan Purchase Commitments: At June 30, 2008 the Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, had outstanding commitments to purchase approximately \$1.14 billion of student loans. The PHEAA has been unable to fund the purchase of \$885 million of commitments outstanding at June 30, 2008 and, subsequent to June 30, 2008 such inability has triggered events of default disclosed in Note R. The PHEAA has outstanding commitments to purchase an additional \$225 million of student loans through June 30, 2009. Most of the outstanding commitments are with financial institutions and the PHEAA is continuing to work with those institutions to renegotiate the timing and other terms of the commitments.

NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Pennsylvania Medical Care Availability and Reduction of Error Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims to claimants which exceed basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Fund collects statutory healthcare provider surcharges, as a percentage of insurance premiums for basic liability coverage, and collects certain statutory motorist moving vehicle violation assessment surcharges; in turn, the Fund pays claimants on behalf of healthcare providers. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled \$1.79 billion at June 30, 2008. The claims will be funded exclusively through statutory surcharge assessments in future years as claims are settled and paid.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The estimated actuarial liability for existing and potential future claims totaled \$3.1 billion at June 30, 2008. There are statutory limits on the extent of the Fund's liability to participating owners and operators; the Fund is not obligated beyond assets held at June 30, 2008. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

NOTE P - DEFERRED COMPENSATION

The Commonwealth sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is administered by the State Employees' Retirement System, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency. The Commonwealth makes no contributions to the plan; contributions are limited to employee salary deferrals or employee transfers from other plans.

Of the \$1,844 million in net assets reported in the Deferred Compensation Fund, a Pension Trust Fund, at December 31, 2007, \$1,775 million relates to primary government employees and \$61 million relates to employees of discretely presented component units. The remaining balance of \$8 million relates to organizations not included in the Commonwealth's financial reporting entity.

NOTE Q - JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides healthcare benefits for active Commonwealth employees and is the Commonwealth's third party administrator for paying retiree healthcare benefits for the Commonwealth Retired Employee Health Program and the Retired Pennsylvania State Police Plan. The Commonwealth has, in its collective bargaining agreements with unions subject to the agreement, obligated itself to provide certain contributions on behalf of nearly all active bargaining unit employees. The Commonwealth also remits contractually established contributions on behalf of active non-union employees and other active employees covered by contracts between the Commonwealth and other unions. Effective July 1, 2007 nearly all active employees contribute established percentages of their salaries and wages received. During the fiscal year ended June 30, 2008, total employer contributions for active employees amounted to approximately \$731 million; active employee contributions amounted to approximately \$40 million. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2008, for the active employees benefit program the PEBTF reported total assets of over \$247 million, total liabilities of less than \$2 million, total benefit obligations of \$67 million, and an excess of net assets over benefit obligations of over \$178 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is not evident. During the fiscal year ended June 30, 2008 the PEBTF reported an increase in net assets over benefit obligations of over \$77 million for the active employee benefit program.

Audited financial statements for the active employee healthcare plans are available, by request, from:

Pennsylvania Employees Benefit Trust Fund
150 South 43rd Street
Harrisburg, Pennsylvania 17111-5700

NOTE R – SUBSEQUENT EVENTS**Debt Issuances**

Subsequent to June 30, 2008 (May 31, 2008 for the Pennsylvania Turnpike Commission)(PTC), the Commonwealth has issued general obligation bonds and several component unit organizations have issued other debt or have renegotiated debt repayment terms, as follows:

Primary Government

On December 9, 2008 the Commonwealth issued \$300 million of General Obligation Bonds to finance the following: capital facilities projects including construction and major rehabilitation of public buildings, redevelopment assistance projects, and transportation assistance projects; environmental initiatives related to the Growing Greener program including open space and farmland preservation, watershed protection, abandoned mine reclamation, and acid mine drainage remediation among others. Settlement on the bonds occurred on December 18, 2008. The bonds mature among 20 different ranges; the fixed interest rate for the first 13 maturities is 5.0 percent; the fixed interest rates on the remaining seven maturities range from 5.125 percent to 5.6 percent.

Discretely Presented Component Units

On July 29, 2008 the Pennsylvania Turnpike Commission (PTC) issued Series B of 2008 fixed rate Turnpike Subordinate Revenue Bonds in the amount of \$233.9 million. Such bonds mature between 2018 and 2036.

On August 19, 2008 the PTC issued \$50 million of Turnpike Multi-Modal Revenue Bonds, Series C of 2008. Such bonds mature in 2038.

In July 2008 the PTC and the Pennsylvania Department of Transportation (DOT) submitted an amended application to the Federal Highway Administration (FHWA) seeking its consent to toll Interstate 80 in Pennsylvania. Such application was supplemented in August 2008. On September 11, 2008 the FHWA advised the PTC and DOT that the FHWA was unable to proceed with its review of the application primarily because the proposed lease payments from the PTC to DOT did not meet Federal statutory requirements.

The PTC expects to fund payments required under Act 44 of 2007 and the related Lease and Funding Agreement for its fiscal year ending May 31, 2009 using a combination of debt proceeds and a 25% toll increase on PTC roadway and bridges; such toll increase is to be effective January 2009. It is possible, as a result of extraordinary credit market conditions, that the PTC's ability to secure funding through the issuance of debt may be adversely affected.

In July 2008, the Pennsylvania Higher Educational Facilities Authority (PHEFA) issued Series AH tax-exempt bonds in the amount of \$140.7 million and in August 2008 the PHEFA issued Series AI tax-exempt bonds in the amount of \$32.1 million. In connection with these bond issuances, the State System of Higher Education (SSHE) entered into a loan agreement with PHEFA under which SSHE pledged its full faith and credit for repayment of the PHEFA bonds. The bonds were issued to provide funds to undertake various capital projects at SSHE universities.

On August 15, 2008 the Pennsylvania Housing Finance Agency (PHFA) issued \$183 million of Single Family Mortgage Revenue Bonds, Series 103A through 103C, which mature in 2038.

On August 8, 2008 the Pennsylvania Higher Education Assistance Agency (PHEAA) extended a \$150 million student loan financing note payable (as of June 30, 2008), which was originally due on August 8, 2008 to August 7, 2009.

On August 28, 2008 the PHEAA extended a \$35 million student loan financing obligation which was originally due on August 31, 2008 to August 28, 2009.

On October 27, 2008 the PHEAA reduced a \$500 million student loan financing to \$422 million and the related payment due date was extended from December 31, 2008 to July 31, 2009.

NOTE R – SUBSEQUENT EVENTS (continued)**Investment Counterparty No Longer Going Concern**

On October 1, 2008 one of the counterparties to the Pennsylvania Treasury Department's securities lending program (Program), Sigma Finance, Inc. (Sigma), ceased operations and on October 6, 2008 Sigma entered into receivership. On September 30, 2008 the Program held a total of \$128 million in Senior Medium Term Notes Payable (Notes), issued by Sigma. The Notes were purchased by the Treasury Department's custodian, Bank of New York Mellon (BNYM), with the intention of holding such Notes in the Program and various other BNYM securities lending pools, in its own cash collateral pool and client cash investment accounts, until maturity. BNYM and other Note holders are pursuing full repayment through Sigma's receiver. On an allocated basis, through participation in the Program, the following Funds held a pro-rata share of the Notes based on the June 30, 2008 participation levels (amounts in millions):

General Fund	\$ 15.7	Public School Employees' Retirement System	\$ 53.2
State Lottery Fund	\$ 1.7	Tobacco Settlement Fund	\$ 2.0
Motor License Fund	\$ 5.8	State Workers' Insurance Fund	\$ 5.2
State Employees' Retirement System	\$ 7.6	Tuition Payment Fund	\$ 2.8

Events of Default on Indebtedness Outstanding

Subsequent to June 30, 2008 events of default occurred on specific Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, indebtedness owed at June 30, 2008 as follows: Line of credit facility--\$415.1 million; Unsecured line of credit --\$94.0 million; and, Capital financing line -- \$9.4 million. Events of default on the first two preceding items were triggered due to 1) the PHEAA's inability to fund its commitments (outstanding at June 30, 2008) to purchase \$885 million of student loans disclosed in Note N and 2) the occurrence of certain material adverse changes relating to the PHEAA's operations, business, properties, liabilities, financial condition and prospects taken as a whole. For the Line of credit facility, the lender's remedies are limited solely to the student loans and other assets in trust securing the Line of credit. For the Unsecured line of credit, the PHEAA has granted the lender a security interest in otherwise unencumbered assets to secure the line of credit. For each of the three events of default, each affected lender waived its right of default during December 2008. Associated with these lender waivers, among other negotiated or re-negotiated terms, PHEAA repayment dates have been re-scheduled. Further, the PHEAA has obtained lender forbearances (conditional, in some instances) with respect to potential, future defaults. Additional PHEAA note disclosures are included in its audited financial statements, available at

http://www.pheaa.org/about/pdf/financial_reports/annual/2008AuditedFinancialStatements.pdf.

Investment Valuation and Investment Income

Subsequent to June 30, 2008, through December 23, 2008, investment security valuations broadly decreased from comparable June 30, 2008 reported valuations. Such decreases had the most effect on equity securities but such decreases affected almost all types of investments owned by the Commonwealth. A variety of Commonwealth Funds have reported realized losses as part of investment income as a result of redeeming their allocated shares of the Treasury Department's Common Investment Pool at net asset value of shares less than the average cost of shares at the time such shares of the Common Investment Pool were purchased. An October 31, 2008 statement from the Treasury Department is available at <http://www.patreasury.org/press/067-2008.htm>. Specific investing organizations outside the Treasury Department, identified in Note D to the financial statements, have specific investment authority to manage a portion of their own investment portfolios and, in some instances, reported lower or negative investment income during the fiscal year ended June 30, 2008, in comparison to the prior fiscal year. Several such organizations owning longer-term investments or owning more equity investments than the Common Investment Pool have reported realized and unrealized losses as part of their investment income during the 2008-2009 fiscal year. A statement and summary from the State Employees' Retirement System about its investment balances and valuation during calendar year 2008 is available at <http://www.sers.state.pa.us/sers/cwp/view.asp?a=236&q=284133#1>. A November 25, 2008 release from the Public School Employees' Retirement System about its investment balances and valuation during its 2008-2009 fiscal year is available at <http://www.psers.state.pa.us/invest/invest.htm>.

Required Supplementary Information

-Pennsylvania Symbols-

“State Animal”



The Whitetail Deer is the official state animal, as enacted by the General Assembly on October 2, 1959.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Picture courtesy of the Pennsylvania Game Commission (www.pgc.state.pa.us)

Commonwealth of Pennsylvania

Schedule of Funding Progress and Employer Contributions of Other Postemployment Benefit Plans

Retired Employees Health Plan (REHP)

Retired Pennsylvania State Police Program (RPSPP)

PA Judiciary

PA House of Representatives

PA Senate

For the Fiscal Year Ended June 30, 2008

(Amounts in millions)

Funding Progress: As of and for the fiscal year ended June 30, 2008 (transition year)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Estimated Covered Payroll	UAAL as a Percentage of Covered Payroll
REHP.....	\$ 38.50	\$ 7,297.5	\$ 7,259.0	0.53%	\$ 3,863.1	187.91%
RPSPP.....	53.30	1,833.1	1,779.8	2.91	314.0	566.82
PA Judiciary.....	-	400.3	400.3	-	179.6	222.88
PA House of Representatives.....	-	287.5	287.5	-	102.7	279.94
PA Senate.....	-	230.2	230.2	-	49.7	463.18
Total primary government.....	\$ 91.8	\$ 10,048.6	\$ 9,956.8	0.91%	\$ 4,509.1	220.82%

Employer Contributions: As of and for the fiscal year ended June 30, 2008 (transition year)	Annual Required Contributions	Actual Contribution	Percentage Contributed
REHP.....	\$ 590.4	\$ 590.4	100.00%
RPSPP.....	120.3	114.8	95.43
PA Judiciary.....	36.4	16.2	44.51
PA House of Representatives.....	35.9	8.3	23.12
PA Senate.....	40.5	15.9	39.26
Total primary government.....	\$ 823.5	\$ 745.6	90.54%

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Major Funds
 General Fund
 For the Fiscal Year Ended June 30, 2008
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 26,049,000	\$ 27,114	\$ 26,076,114	\$ 167,070	\$ 26,243,184
Liquor store profits transfer.....	80,000	-	80,000	-	80,000
Licenses and fees.....	116,400	246	116,646	5,776	122,422
Fines, penalties and interest.....	30,600	733	31,333	17,218	48,551
Investment income.....	252,700	(3,982)	248,718	(93,575)	155,143
Unclaimed property	63,800	2,643	66,443	62,130	128,573
Departmental services.....	2,099,352	269,034	2,368,386	-	2,368,386
Miscellaneous.....	98,100	85	98,185	2,004	100,189
TOTAL STATE PROGRAMS.....	28,789,952	295,873	29,085,825	160,623	29,246,448
Federal Programs.....	16,481,042	21,548	16,502,590	(382,613)	16,119,977
TOTAL REVENUES.....	45,270,994	317,421	45,588,415	(221,990)	45,366,425
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	1,052,786	(13,349)	1,039,437	(3,900)	1,035,537
Protection of persons and property.....	3,155,411	490,259	3,645,670	(2,683)	3,642,987
Health and human services.....	11,516,992	(149,478)	11,367,514	(181,557)	11,185,957
Public education.....	11,522,986	(82,179)	11,440,807	(11,070)	11,429,737
Recreation and cultural enrichment.....	339,188	286	339,474	(250)	339,224
Debt service.....	870,691	75	870,766	(53)	870,713
Economic development.....	797,106	32,018	829,124	(14,410)	814,714
Transportation.....	18,730	(903)	17,827	-	17,827
TOTAL STATE PROGRAMS.....	29,273,890	276,729	29,550,619	(213,923)	29,336,696
Federal Programs.....	16,481,042	21,548	16,502,590	(382,613)	16,119,977
TOTAL EXPENDITURES.....	45,754,932	298,277	46,053,209	(596,536)	45,456,673
REVENUES OVER/(UNDER)					
EXPENDITURES.....	(483,938)	19,144	(464,794)	374,546	(90,248)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	142,130	142,130	-	142,130
REVENUES AND OTHER SOURCES OVER					
(UNDER) EXPENDITURES.....	(483,938)	161,274	(322,664)	374,546	51,882
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2007.....	530,914	-	530,914	-	530,914
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2008.....	\$ 46,976	\$ 161,274	\$ 208,250	\$ 374,546	\$ 582,796

- The notes to required supplementary information are an integral part of this schedule. -

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Major Funds
 Special Revenue Fund-Motor License
 For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 1,274,050	\$ -	\$ 1,274,050	\$ (37,586)	\$ 1,236,464
Licenses and fees.....	889,690	-	889,690	(17,627)	872,063
Fines, penalties and interest.....	30,740	-	30,740	3,658	34,398
Investment income.....	90,000	-	90,000	(38,306)	51,694
Departmental services.....	59,239	(7,191)	52,048	-	52,048
Act 44 Receipts *.....	450,000	-	450,000	-	450,000
Miscellaneous.....	22,980	-	22,980	332	23,312
TOTAL STATE PROGRAMS.....	2,816,699	(7,191)	2,809,508	(89,529)	2,719,979
Federal Programs.....	1,387,804	18,997	1,406,801	(75,657)	1,331,144
TOTAL REVENUES.....	4,204,503	11,806	4,216,309	(165,186)	4,051,123
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	87,073	1,274	88,347	(7,512)	80,835
Protection of persons and property.....	677,192	2,300	679,492	(18,844)	660,648
Public education.....	1,230	-	1,230	(325)	905
Recreation and cultural enrichment.....	1,000	-	1,000	-	1,000
Debt service.....	24,275	-	24,275	(404)	23,871
Transportation.....	2,070,714	(9,145)	2,061,569	(25,500)	2,036,069
TOTAL STATE PROGRAMS.....	2,861,484	(5,571)	2,855,913	(52,585)	2,803,328
Federal Programs.....	1,387,804	18,997	1,406,801	(75,657)	1,331,144
TOTAL EXPENDITURES.....	4,249,288	13,426	4,262,714	(128,242)	4,134,472
REVENUES UNDER EXPENDITURES.....	(44,785)	(1,620)	(46,405)	(36,944)	(83,349)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	97,443	97,443	-	97,443
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(44,785)	95,823	51,038	(36,944)	14,094
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2007.....	96,632	-	96,632	-	96,632
UNRESERVED/UNDESIGNATED FUND BALANCES					
(BUDGETARY BASIS), JUNE 30, 2008.....	\$ 51,847	\$ 95,823	\$ 147,670	\$ (36,944)	\$ 110,726

* Act 44 receipts were received from the Pennsylvania Turnpike Commission (PTC) for the first time during the fiscal year ended June 30, 2008. Such receipts were received pursuant to Act 44 of 2007 and the related Lease and Funding Agreement between the PTC and the PA Department of Transportation.

- The notes to required supplementary information are an integral part of this schedule. -

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 - Budget Preparation Process

The process of preparing the General Fund Budget for the Commonwealth of Pennsylvania begins nearly one year before the new budget takes effect on July 1 each year. The budget process begins in August of the year previous to the budget year with the distribution of both the Budget Instructions and Program Policy Guidelines by the Office of the Budget and the Governor's Office, respectively. These provide detailed guidelines and define major policy issues to be considered when agencies complete their budget requests. As required by statute, agencies must prepare budgets that indicate the cost of supporting activities at the level expected in the immediate budget year and the ensuing four budget years. The five-year horizon does not include future program changes but considers the requirements and demands of current law, regulation, policy and program decisions.

Agencies submit budget requests to the Secretary of the Budget beginning in early October. From October through January, the Office of the Budget reviews these requests for accuracy and adherence to policy guidelines and prepares funding recommendations for the Secretary of the Budget and the Governor.

During December, the Governor meets with leaders of the General Assembly to inform them of anticipated spending and revenue levels and to discuss related budgetary issues. The Governor then conducts reviews to make the final budget decisions. The Governor's Executive Budget is finalized in January and is submitted to the General Assembly in early February.

After receiving the budget document, the appropriations committees of both houses of the legislature hold hearings to review agency funding requests. The General Assembly passes the budget in the form of a General Appropriations Bill and individual appropriations bills. At the time of passage of these bills and their presentation to the Governor, the official revised revenue estimates for the budget year are issued. If the combined appropriations bills passed by the legislature exceed the revenue estimates, the Governor is required and has the authority to either veto entire appropriations bills or to reduce the amount of appropriations in order to produce a budget that is in balance. The Governor also has the power to reduce or veto any specific appropriation even if the total appropriations do not exceed estimated revenues. The Governor's signing of the appropriations bills and any revenue bills is the last step in the approval stage of the budget.

Additional information regarding Pennsylvania's budgeting process may be located at: <http://www.oit.state.pa.us/budget>

Note 2 – Basis of Budgeting

On the budgetary basis, certain estimated tax revenue accruals are recorded at fiscal year end for the **General Fund** and the **Motor License Fund**, a Special Revenue Fund. Accruals include sales and use taxes and personal income taxes, both applicable to the General Fund, and liquid fuels taxes applicable to the **Motor License Fund**. These taxes are estimated to be owed to the Commonwealth but are not collected by fiscal year end. Also, estimated encumbrances are established for all funds at fiscal year end to pay certain direct expenditures for salaries, wages, travel, and utility costs payable against current year appropriation authority but expended in the subsequent year. Over-estimates of prior year encumbrances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority.

Budgeted revenues in the Budgetary Comparison Schedules represent official estimates while expenditures represent amounts originally adopted or legally amended. Actual amounts are presented on the budgetary basis. Because the budgetary basis differs from the modified accrual basis of accounting for governmental funds, a reconciliation of the differences between budgetary basis and the modified accrual basis of reporting is presented.

Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts formal annual budgets for two major governmental funds (**General Fund** and **Motor License Fund**, a Special Revenue Fund) and three nonmajor governmental funds (Workers' Compensation Administration, Banking Department, and Milk Marketing, Special Revenue funds). The Budgetary Comparison Schedules for Budgeted Major and Nonmajor Funds presents comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

	Major Budgeted Funds	
	<u>General Fund</u>	<u>Motor License Fund</u>
Budgetary basis – revenues and other sources over expenditures and other uses.....	<u>\$ 51,882</u>	<u>\$ 14,094</u>
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(1,457,012)	791,795
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>1,008,365</u>	<u>(658,150)</u>
Net adjustments.....	<u>(448,647)</u>	<u>133,645</u>
Modified accrual basis – net change in governmental fund balance.....	<u>\$ (396,765)</u>	<u>\$ 147,739</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals; amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

Note 4 – Budgetary Compliance

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the **General Fund** includes \$62.2 million in supplemental appropriations approved during the fiscal year ended June 30, 2008.

A separately available report, the “*Status of Appropriations*,” demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2008. This report includes a variety of detail information and summaries related to individual appropriations. A second “*Status of Appropriations*” report (for Special Funds) demonstrates compliance for the four budgeted Special Revenue funds: **Motor License**, Workers’ Compensation Administration, Banking Department and Milk Marketing. Both “*Status*” reports are available online at the Office of the Budget internet site: <http://www.budget.state.pa.us>. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Total reported actual expenditures for "Total State Programs" included in the Budgetary Comparison Schedule – Budgeted Major Funds are based on appropriation, augmentation and lapse amounts reported in the respective June 30, 2008 "Status of Appropriations" (Total All Current State Ledgers) as follows (in thousands):

	"Status" Page Reference	Total Approved Appropriations	+	Total Actual Augmentations	-	Total Actual Lapses	=	Actual Expenditure Amounts
General Fund amounts.....	7 ¹	\$ 28,232,233		\$ 2,368,386		\$ 213,923		\$ 30,386,696
Less: tax refunds.....	7 ¹	(1,050,000)		-		-		(1,050,000)
Amount reported.....		<u>\$ 27,182,233</u>		<u>\$ 2,368,386</u>		<u>\$ 213,923</u>		<u>\$ 29,336,696</u>
Special Revenue Funds:								
Motor License Fund.....	54	\$ 3,754,928		\$ 1,361,596		\$ 86,569		\$ 5,029,955
less: reductions ²		(951,063)		(1,309,548)		(33,984)		(2,226,627)
Amount reported.....		<u>\$ 2,803,865</u>		<u>\$ 52,048</u>		<u>\$ 52,585</u>		<u>\$ 2,803,328</u>
Workers' Compensation								
Administration Fund.....	261	\$ 63,383		\$ 174		\$ -		\$ 63,557
Banking Department Fund.....	102	\$ 18,765		\$ -		\$ 5		\$ 18,760
Milk Marketing Fund.....	108	\$ 2,819		\$ -		\$ 5		\$ 2,814

Total actual expenditures for "Federal Programs" for the **General Fund** are derived from the **General Fund** "Status", page no. 247 "Summary of All Current Federal Ledgers by Character of Expenditure" as follows (in thousands): Commitments of \$623,886, Expenditures of \$13,021,958, and Available Balances of \$2,474,133 for a total of \$16,119,977.

Total actual expenditures for "Federal Programs," for the **Motor License Fund** are derived from the Special Funds "Status", page no. 86 "Summary of Federal Ledgers by Type" as follows (in thousands): Commitments of \$3,062, Expenditures of \$17,985, and Available Balances of \$2,287 for a total of \$23,334; plus \$1,307,807 (source in footnote 3 below) for a **Motor License Fund** total of \$1,331,141.

¹ Page no. 7, "Summary of All Current State Ledgers by Character of Expenditure," **General Fund** "Status of Appropriations."

² Excludes the following appropriation symbols, beginning on page 57, Special Funds "Status of Appropriations:" 010-78-571-07-16; 010-78-572-07-16; 010-78-579-07-16; 010-73-132-07-26; 010-38-226-07-26; 010-78-172-07-26; 010-78-173-07-26; 010-78-174-07-26; and 010-78-177-07-26 through 010-78-185-07-26.

³ The amount of \$1,307,809 is found in the Year-to-Date column for "Total Federal Revenue Augmenting Current State Expenditure Symbols" on page 114 of the June 30, 2008 "Report of Revenues and Receipts". This amount, less \$257,668 (for revenue codes 010811-008181-101; 010811-008232-101; 010811-008284-101; 010811-008284-102; 010811-008289-101; and 010811-008289-102) equals \$1,050,141, the net reduction of federal funds from **Motor License Fund** Actual Augmentations.

Combining Financial Statements

Including
Nonmajor Budgetary Comparison Schedules

-Pennsylvania Symbols-
"State Game Bird"



The Ruffed Grouse is the state game bird, as enacted by the General Assembly on June 22, 1931. The Pennsylvania ruffed grouse, sometimes called the partridge, is distinguished by its plump body, feathered legs, and mottled reddish-brown color. This protective coloring makes it possible for the ruffed grouse to conceal itself in the wilds.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Photo courtesy of the Pennsylvania Game Commission (www.pgc.state.pa.us)

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds
June 30, 2008

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash.....	\$ 18,308	\$ -	\$ 1,068	\$ 19,376
Temporary investments.....	2,815,313	30,507	729,639	3,575,459
Long-term investments.....	458,329	-	-	458,329
Receivables, net:				
Taxes.....	26,500	-	-	26,500
Accounts.....	7,552	3,274	14,589	25,415
Accrued interest.....	7,161	65	1,356	8,582
Notes and loans.....	73,628	-	-	73,628
Lease rentals.....	-	553	-	553
Investment sale proceeds.....	3,168	-	-	3,168
Other.....	24,229	-	-	24,229
Due from other funds.....	58,163	-	13,940	72,103
Due from component units.....	-	-	10,447	10,447
Due from Federal government.....	21,548	-	-	21,548
Due from political subdivisions.....	510	-	1,190	1,700
Advances to other funds.....	3,000	-	-	3,000
TOTAL ASSETS.....	\$ 3,517,409	\$ 34,399	\$ 772,229	\$ 4,324,037
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 262,216	\$ -	\$ 176,874	\$ 439,090
Investment purchases payable.....	8,118	-	-	8,118
Securities lending obligations.....	534,271	3,114	74,471	611,856
Due to other funds.....	3,379	-	1,305	4,684
Due to component units.....	301	-	-	301
Due to pension trust funds.....	181	-	-	181
Due to political subdivisions.....	41,558	-	53,910	95,468
Due to other governments.....	425	-	-	425
Unearned revenue.....	18,191	3,827	-	22,018
Advances from other funds.....	10,333	-	-	10,333
TOTAL LIABILITIES.....	878,973	6,941	306,560	1,192,474
Fund balances:				
Reserved for:				
Encumbrances.....	350,889	-	1,035,922	1,386,811
Advances.....	3,000	-	-	3,000
Loans receivable.....	73,628	-	-	73,628
Other.....	134,908	-	4,802	139,710
Unreserved:				
Designated for:				
Capital projects.....	-	-	54,631	54,631
Debt service:				
Retirement of general obligation bonds.....	-	27,458	-	27,458
Other.....	9,341	-	-	9,341
Undesignated (deficit).....	2,066,670	-	(629,686)	1,436,984
TOTAL FUND BALANCES.....	2,638,436	27,458	465,669	3,131,563
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 3,517,409	\$ 34,399	\$ 772,229	\$ 4,324,037

Commonwealth of Pennsylvania

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes.....	\$ 1,419,263	\$ -	\$ 75,914	\$ 1,495,177
Licenses and fees.....	663,159	-	-	663,159
Intergovernmental.....	446,292	-	-	446,292
Charges for sales and services.....	130,051	-	16,383	146,434
Investment income.....	49,388	280	26,468	76,136
Lease rental principal and interest.....	-	99	-	99
Interest on notes and loans.....	1,157	-	-	1,157
Other.....	30,474	4,273	-	34,747
TOTAL REVENUES	2,739,784	4,652	118,765	2,863,201
EXPENDITURES:				
Current:				
Direction and supportive services.....	221,238	-	17,556	238,794
Protection of persons and property.....	496,788	-	6,371	503,159
Health and human services.....	381,560	-	-	381,560
Public education.....	57,575	-	23,349	80,924
Recreation and cultural enrichment.....	166,673	-	57,923	224,596
Economic development.....	280,220	-	310,265	590,485
Transportation.....	919,152	-	150,159	1,069,311
Capital outlay.....	29,293	-	431,042	460,335
Debt service:				
Principal retirement.....	-	555,337	-	555,337
Interest and fiscal charges.....	-	388,688	-	388,688
TOTAL EXPENDITURES	2,552,499	944,025	996,665	4,493,189
REVENUES OVER (UNDER) EXPENDITURES	187,285	(939,373)	(877,900)	(1,629,988)
OTHER FINANCING SOURCES (USES):				
Bonds issued.....	174,521	-	738,598	913,119
Refunding bonds issued.....	-	194,471	-	194,471
Premium on bonds/refunding bonds issued.....	8,824	9,162	43,291	61,277
Transfers in.....	537,861	946,357	-	1,484,218
Transfers out.....	(189,967)	-	(3,000)	(192,967)
Payment to refunded bond escrow agent....	-	(203,633)	-	(203,633)
NET OTHER FINANCING SOURCES.....	531,239	946,357	778,889	2,256,485
NET CHANGE IN FUND BALANCES.....	718,524	6,984	(99,011)	626,497
FUND BALANCES JULY 1, 2007.....	1,919,912	20,474	564,680	2,505,066
FUND BALANCES JUNE 30, 2008.....	\$ 2,638,436	\$ 27,458	\$ 465,669	\$ 3,131,563

Special Revenue Funds

Including
Nonmajor Budgetary Comparison Schedules

-Pennsylvania Symbols-

“State Dog”



The Great Dane is the state dog, as enacted by the General Assembly on August 15, 1965.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Photo courtesy of Barbara Wartluft (through Mary Bender-Pennsylvania Department of Agriculture)

SPECIAL REVENUE FUNDS DESCRIPTION NONMAJOR FUNDS

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Banking Department Fund — to account for the administration of the Department of Banking and regulation of financial institutions. Revenue is received from fees, assessments, charges and penalties collected or recovered from persons, firms, corporations or associations regulated by the Department of Banking.

Milk Marketing Fund — to account for the operation of the Milk Marketing Board and to serve as a depository for amounts due to dairy farmers from underpayments by dealers. Revenue is received from license fees, fines, penalties and permits relating to the milk industry.

Workers' Compensation Administration Fund — to account for the administration of the Pennsylvania Workers' Compensation Act and the Pennsylvania Occupational Disease Act. Insurance companies and self-insured businesses are assessed a periodic fee for costs incurred in administering these acts.

Workers' Compensation Security Fund — to account for the payment of workers' compensation claims to individuals who are insured by an insolvent insurance company and for the costs to administer the program. Funds are derived from an annual assessment on all insurance carriers authorized to transact and provide workmen's compensation insurance in the Commonwealth.

Catastrophic Loss Benefits Fund — to account for the payment of medical and rehabilitative expenses over \$100,000 to a lifetime aggregate of \$1 million to residents injured in a motor vehicle accident.

Environmental Stewardship Fund — to account for revenues from certain landfill fees and expenditures for farmland preservation projects, open space protection, abandoned mine reclamation, watershed protection and restoration, water and sewer infrastructure, and the improvement of conservation of Commonwealth and community parks and recreational facilities.

Public Transportation Trust Fund — to provide dedicated funding for public transportation in the Commonwealth. Revenues come from scheduled payments by the Pennsylvania Turnpike Commission, a portion of the Sales and Use Tax, and transfers from the Public Transportation Assistance Fund and the Lottery Fund. Monies in this fund are disbursed as grants to public transit agencies for operating costs (including Shared Ride and Free Transit for Older Pennsylvanians), capital and asset improvements, and programs of statewide significance.

Gaming Fund — to account for the administration of the Race Horse Development and Gaming Act. Revenue is received from license fees and a percentage of the gross terminal revenue (GTR) generated by licensed gaming facilities.

Growing Greener Bond Fund — to account for certain bond issuance financing and expenditures for environmental projects such as watershed protection, mine drainage remediation, advanced energy, flood protection, brownfields remediation, state parks and forest facilities, open space conservation, farm land preservation, capital improvement projects for fishing, boating and hunting, and for county environmental initiatives.

Water Supply and Wastewater Treatment Fund — to provide single-year or multiyear grants to municipalities and municipal authorities and loans to municipalities, municipal authorities, industrial development corporations and investor-owned water or wastewater enterprises for projects which construct, expand or improve water and wastewater infrastructure.

Other — to account for programs related to restoration, conservation, protection and management of natural resources; the payment of prescription drugs for eligible citizens 65 years or older; the preservation of historical landmarks; vocational rehabilitation services; administrative and regulatory activities of various departmental programs; and miscellaneous Commonwealth activities. This "Other" category is an aggregation of sixty-seven individual special revenue funds.

There are a total of seventy-nine individual special revenue funds; **Motor License** and **Tobacco Settlement** special revenue funds are reported as Major Funds in the basic financial statements.

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds
Special Revenue Funds
June 30, 2008
(Amounts in thousands)

	Budgeted Funds						Public Transportation Trust	Gaming	Growing Greener Bond	Water Supply and Wastewater Treatment	Other	Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Environmental Stewardship						
ASSETS												
Cash.....	\$ 2	\$ 18	\$ -	\$ 152	\$ -	\$ -	\$ 144	\$ 12,141	\$ 38	\$ -	\$ 5,813	\$ 18,308
Temporary investments.....	40,926	3,216	98,901	153,985	130,631	82,566	110,037	1,116,976	96,398	92,042	889,635	2,815,313
Long-term investments.....	-	-	-	458,329	-	-	-	-	-	-	-	458,329
Receivables, net:												
Taxes.....	-	-	-	-	-	-	-	-	-	-	26,500	26,500
Accounts.....	5,148	-	7	1	-	-	-	1	-	-	2,395	7,552
Accrued interest.....	-	-	-	3,316	-	-	-	2,123	655	557	510	7,161
Loans.....	-	-	-	-	-	-	-	-	-	47,322	26,306	73,628
Investment sale proceeds.....	-	-	-	3,168	-	-	-	-	-	-	-	3,168
Other.....	-	-	-	-	-	-	-	-	-	-	24,229	24,229
Due from other funds.....	-	-	-	-	-	-	32,982	120	-	-	25,061	58,163
Due from Federal government.....	-	-	-	-	-	-	-	-	-	-	21,548	21,548
Due from political subdivisions.....	-	-	-	-	-	-	-	-	-	-	510	510
Advances to other funds.....	-	-	-	-	-	-	-	-	-	-	3,000	3,000
TOTAL ASSETS.....	\$ 46,076	\$ 3,234	\$ 98,908	\$ 618,951	\$ 130,631	\$ 82,566	\$ 143,163	\$1,131,361	\$ 97,091	\$ 139,921	\$1,025,507	\$ 3,517,409
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities.....	\$ 1,466	\$ 128	\$ 2,615	\$ 1,503	\$ 1,145	\$ 4,376	\$ 43,585	\$ 52,006	\$ 12,510	\$ 4,000	\$ 138,882	\$ 262,216
Investment purchases payable.....	-	-	-	8,118	-	-	-	-	-	-	-	8,118
Securities lending obligations.....	8,772	689	10,158	122,911	28,000	17,697	23,586	114,007	9,839	9,394	189,218	534,271
Due to other funds.....	148	24	114	42	11	2	5	129	3	-	2,901	3,379
Due to component units.....	-	-	-	-	-	-	-	-	-	-	301	301
Due to pension trust funds.....	7	2	20	-	-	-	2	13	-	-	137	181
Due to political subdivisions.....	-	-	-	-	-	1,965	3,266	15,741	5,303	4,793	10,490	41,558
Due to other governments.....	16	5	45	1	-	-	5	31	-	-	322	425
Unearned revenue.....	4,086	655	166	-	-	-	-	-	-	-	13,284	18,191
Advances from other funds.....	-	-	-	-	-	-	-	-	-	-	10,333	10,333
TOTAL LIABILITIES.....	14,495	1,503	13,118	132,575	29,156	24,040	70,449	181,927	27,655	18,187	365,868	878,973
Fund balances:												
Reserved for:												
Encumbrances.....	1,040	4	4,287	4,955	601	45,962	9,485	2,304	118,057	110,689	53,505	350,889
Advances.....	-	-	-	-	-	-	-	-	-	-	3,000	3,000
Loans receivable.....	-	-	-	-	-	-	-	-	-	47,322	26,306	73,628
Other.....	-	-	739	-	-	250	-	51,508	-	-	82,411	134,908
Unreserved:												
Designated for:												
Other.....	-	-	-	-	-	9,341	-	-	-	-	-	9,341
Undesignated (deficit).....	30,541	1,727	80,764	481,421	100,874	2,973	63,229	895,622	(48,621)	(36,277)	494,417	2,066,670
TOTAL FUND BALANCES.....	31,581	1,731	85,790	486,376	101,475	58,526	72,714	949,434	69,436	121,734	659,639	2,638,436
TOTAL LIABILITIES AND FUND BALANCES..	\$ 46,076	\$ 3,234	\$ 98,908	\$ 618,951	\$ 130,631	\$ 82,566	\$ 143,163	\$1,131,361	\$ 97,091	\$ 139,921	\$1,025,507	\$ 3,517,409

Commonwealth of Pennsylvania

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds

Special Revenue Funds

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Budgeted Funds											Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Environmental Stewardship	Public Transportation Trust	Gaming	Growing Greener Bond	Water Supply and Wastewater Treatment	Other	
REVENUES:												
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 428,994	\$ 769,064	\$ -	\$ -	\$ 221,205	\$1,419,263
Licenses and fees.....	4,819	2,532	97	22,129	-	75,416	-	285,910	-	-	272,256	663,159
Intergovernmental.....	-	-	-	-	-	-	300,000	-	-	-	146,292	446,292
Charges for sales and services.....	10,597	-	63,544	-	-	-	-	-	-	-	55,910	130,051
Investment income.....	179	15	3,212	9,851	318	125	(2,588)	28,507	4,114	3,913	1,742	49,388
Interest on notes and loans.....	-	-	-	-	-	-	-	-	1	597	559	1,157
Other.....	3	1	115	579	4	65	-	3	-	20	29,684	30,474
TOTAL REVENUES	15,598	2,548	66,968	32,559	322	75,606	726,406	1,083,484	4,115	4,530	727,648	2,739,784
EXPENDITURES:												
Current:												
Direction and supportive services.....	50	-	-	14	-	-	-	219,431	84	42	1,617	221,238
Protection of persons and property.....	18,285	2,474	-	58,921	7,421	16,573	-	27,497	74,747	-	290,870	496,788
Health and human services.....	-	-	52,466	-	-	-	-	126	-	-	328,968	381,560
Public education.....	-	-	-	-	-	-	-	-	1,696	-	55,879	57,575
Recreation and cultural enrichment.....	-	-	-	-	-	14,428	-	8,452	28,723	-	115,070	166,673
Economic development.....	-	-	167	-	-	11,370	-	44,980	15,649	44,961	163,093	280,220
Transportation.....	-	-	-	-	-	-	745,363	-	-	-	173,789	919,152
Capital outlay.....	-	-	-	-	-	320	-	-	24,186	-	4,787	29,293
TOTAL EXPENDITURES	18,335	2,474	52,633	58,935	7,421	42,691	745,363	300,486	145,085	45,003	1,134,073	2,552,499
REVENUES OVER (UNDER)												
EXPENDITURES	(2,737)	74	14,335	(26,376)	(7,099)	32,915	(18,957)	782,998	(140,970)	(40,473)	(406,425)	187,285
OTHER FINANCING SOURCES (USES):												
Bonds issued.....	-	-	-	-	-	-	-	-	109,514	58,006	7,001	174,521
Premium on bonds/refunding bonds issued	-	-	-	-	-	-	-	-	6,321	2,061	442	8,824
Transfers in.....	130	21	385	2	1	44	96,350	-	-	-	440,928	537,861
Transfers out.....	-	-	(2,700)	-	-	(33,085)	(4,679)	(132,959)	-	-	(16,544)	(189,967)
NET OTHER FINANCING												
SOURCES (USES)	130	21	(2,315)	2	1	(33,041)	91,671	(132,959)	115,835	60,067	431,827	531,239
NET CHANGE IN FUND BALANCES.....	(2,607)	95	12,020	(26,374)	(7,098)	(126)	72,714	650,039	(25,135)	19,594	25,402	718,524
FUND BALANCES, JULY 1, 2007.....	34,188	1,636	73,770	512,750	108,573	58,652	-	299,395	94,571	102,140	634,237	1,919,912
FUND BALANCES, JUNE 30, 2008.....	\$ 31,581	\$ 1,731	\$ 85,790	\$ 486,376	\$ 101,475	\$ 58,526	\$ 72,714	\$ 949,434	\$ 69,436	\$ 121,734	\$ 659,639	\$ 2,638,436

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Nonmajor Funds
 Special Revenue Fund-Banking Department
 For the Fiscal Year Ended June 30, 2008
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 15,817	\$ (178)	\$ 15,639	\$ (879)	\$ 14,760
Fines, penalties and interest.....	1,000	(250)	750	(91)	659
Investment income.....	1,616	653	2,269	(625)	1,644
Miscellaneous.....	-	-	-	4	4
TOTAL REVENUES.....	18,433	225	18,658	(1,591)	17,067
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	5	-	5	(5)	-
Protection of persons and property.....	18,760	-	18,760	-	18,760
TOTAL EXPENDITURES.....	18,765	-	18,765	(5)	18,760
REVENUES OVER (UNDER) EXPENDITURES....	(332)	225	(107)	(1,586)	(1,693)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	17	17	-	17
TOTAL OTHER FINANCING SOURCES.....	-	17	17	-	17
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(332)	242	(90)	(1,586)	(1,676)
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2007.....					
	30,461	-	30,461	-	30,461
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2008.....					
	<u>\$ 30,129</u>	<u>\$ 242</u>	<u>\$ 30,371</u>	<u>\$ (1,586)</u>	<u>\$ 28,785</u>

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Banking Department Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources under expenditures (from Actual column above).....	<u>\$ (1,676)</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(1,356)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	425
Net adjustments.....	<u>(931)</u>
Modified accrual basis — net change in governmental fund balance.....	<u>\$ (2,607)</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 139 to 141 are an integral part of this schedule. -

Commonwealth of Pennsylvania
Budgetary Comparison Schedule
 Budgeted Nonmajor Funds
 Special Revenue Fund-Milk Marketing
 For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees.....	\$ 2,500	\$ (5)	\$ 2,495	\$ 35	\$ 2,530
Fines, penalties and interest.....	50	-	50	(48)	2
Investment income.....	101	(1)	100	8	108
TOTAL REVENUES.....	2,651	(6)	2,645	(5)	2,640
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	5	-	5	(5)	-
Protection of persons and property.....	2,814	-	2,814	-	2,814
TOTAL EXPENDITURES.....	2,819	-	2,819	(5)	2,814
REVENUES UNDER EXPENDITURES.....	(168)	(6)	(174)	-	(174)
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	292	292	-	292
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(168)	286	118	-	118
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2007.....	1,323	-	1,323	-	1,323
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2008.....	\$ 1,155	\$ 286	\$ 1,441	\$ -	\$ 1,441

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Milk Marketing Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources over expenditures (from Actual column above).....	\$ 118
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(363)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	340
Net adjustments.....	(23)
Modified accrual basis — net change in governmental fund balance.....	\$ 95

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 139 to 141 are an integral part of this schedule. -

Commonwealth of Pennsylvania

Budgetary Comparison Schedule

Budgeted Nonmajor Funds

Special Revenue Fund-Workers' Compensation Administration

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds.....	\$ 62,118	\$ -	\$ 62,118	\$ 1,251	\$ 63,369
Fines, penalties and interest.....	107	-	107	(10)	97
Investment income.....	3,562	-	3,562	(335)	3,227
Departmental services.....	174	-	174	-	174
Miscellaneous.....	131	-	131	(12)	119
TOTAL REVENUES.....	66,092	-	66,092	894	66,986
EXPENDITURES:					
State Programs:					
Direction and supportive services.....	63,383	-	63,383	-	63,383
Economic development.....	174	-	174	-	174
TOTAL EXPENDITURES.....	63,557	-	63,557	-	63,557
REVENUES OVER EXPENDITURES.....	2,535	-	2,535	894	3,429
OTHER FINANCING SOURCES:					
Prior year lapses.....	-	3,472	3,472	-	3,472
TOTAL OTHER FINANCING SOURCES.....	-	3,472	3,472	-	3,472
REVENUES AND OTHER SOURCES OVER EXPENDITURES.....	2,535	3,472	6,007	894	6,901
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2007.....					
	67,956	-	67,956	-	67,956
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2008.....					
	<u>\$ 70,491</u>	<u>\$ 3,472</u>	<u>\$ 73,963</u>	<u>\$ 894</u>	<u>\$ 74,857</u>

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Workers' Compensation Administration Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources over expenditures (from Actual column above).....	<u>\$ 6,901</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(3,105)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>8,224</u>
Net adjustments.....	<u>5,119</u>
Modified accrual basis — net change in governmental fund balance.....	<u>\$ 12,020</u>

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 139 to 141 are an integral part of this schedule. -

Debt Service Funds

-Pennsylvania Symbols-

"State Fish"



The Brook Trout is the state fish, as enacted by the General Assembly on March 9, 1970.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Photo courtesy of the Pennsylvania Fish and Boat Commission (www.fish.state.pa.us)

**DEBT SERVICE FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Debt service funds account for the accumulation of resources, principally from transfers from other Funds, for the payment of general long-term debt principal and interest.

Disaster Relief Redemption Fund — these funds account for the payment of principal and interest on bonds issued for the rehabilitation of areas of the Commonwealth affected by the floods of 1971, 1972, and 1977. Funding consists of transfers from the General Fund and investment income.

Pennsylvania Infrastructure Investment Authority (PENNVEST) Redemption Fund — to account for the payment of principal and interest on bonds issued for loans to local water companies for the repair, construction, extension and improvement of water supply systems, dams and port facilities and water control systems. Funding consists of transfers from the General Fund and the Pennsylvania Infrastructure Investment Authority Fund and investment income.

Capital Debt Fund — to account for the payment of principal and interest related to general obligation bonds issued for capital projects authorized by Capital Budget Acts. Funding consists of transfers from the General Fund and the Motor License Fund, facility rental and investment income.

Pennsylvania Economic Revitalization Sinking Fund — to account for the payment of principal and interest on bonds issued for the promotion of economic redevelopment throughout Pennsylvania for grants and loans for industrial and small business development. Funding consists of transfers from the General Fund and the Pennsylvania Economic Revitalization Fund and investment income.

Water Facilities Loan Redemption Fund — to account for the payment of principal and interest on bonds issued for the implementation of the water project loan referendum to provide loans to local water companies for repair, construction and improvement to water supply systems. Funding consists of transfers from the General Fund and the Water Facilities Loan Fund, investment income and proceeds from the sale, lease or disposal of loan collateral.

Land and Water Development Sinking Fund — to account for the payment of principal and interest on bonds issued for the acquisition, development and improvements to Commonwealth land and water facilities. Funding consists of transfers from the General Fund, the Land and Water Development Fund and investment income.

Other — these funds account for the payment of principal and interest on bonds issued for loans to nursing homes and volunteer fire companies, compensation to Vietnam conflict veterans, finance of various environmental initiatives and for water and wastewater infrastructure projects related to economic development. Funding consists of transfers from the General Fund, Environmental Stewardship Fund and investment income. This other category is an aggregation of eleven individual debt service funds.

There are a total of seventeen individual debt service funds; all are reported as nonmajor funds.

Commonwealth of Pennsylvania
Combining Balance Sheet-Nonmajor Governmental Funds
Debt Service Funds
June 30, 2008

(Amounts in thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
ASSETS								
Temporary investments.....	\$ -	\$ 1,488	\$ 28,668	\$ -	\$ -	\$ 189	\$ 162	\$ 30,507
Receivables, net:								
Accounts.....	-	-	3,274	-	-	-	-	3,274
Accrued interest.....	-	-	61	-	-	3	1	65
Lease rentals.....	-	-	553	-	-	-	-	553
TOTAL ASSETS.....	\$ -	\$ 1,488	\$ 32,556	\$ -	\$ -	\$ 192	\$ 163	\$ 34,399
LIABILITIES AND FUND BALANCES								
Liabilities:								
Securities lending obligations.....	\$ -	\$ 152	\$ 2,926	\$ -	\$ -	\$ 19	\$ 17	\$ 3,114
Unearned revenue.....	-	-	3,827	-	-	-	-	3,827
TOTAL LIABILITIES.....	-	152	6,753	-	-	19	17	6,941
Fund balances:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds..	-	1,336	25,803	-	-	173	146	27,458
TOTAL FUND BALANCES.....	-	1,336	25,803	-	-	173	146	27,458
TOTAL LIABILITIES AND FUND BALANCES.....	\$ -	\$ 1,488	\$ 32,556	\$ -	\$ -	\$ 192	\$ 163	\$ 34,399

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
 Debt Service Funds
 For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
REVENUES:								
Investment income.....	\$ -	\$ 17	\$ 64	\$ -	\$ -	\$ 199	\$ -	\$ 280
Lease rental principal and interest.....	-	-	99	-	-	-	-	99
Other.....	-	4,273	-	-	-	-	-	4,273
TOTAL REVENUES	-	4,290	163	-	-	199	-	4,652
EXPENDITURES:								
Current:								
Debt service:								
Principal retirement.....	1,510	5,540	535,257	365	1,330	180	11,155	555,337
Interest and fiscal charges.....	366	6,588	363,615	145	530	73	17,371	388,688
TOTAL EXPENDITURES	1,876	12,128	898,872	510	1,860	253	28,526	944,025
REVENUES UNDER EXPENDITURES	(1,876)	(7,838)	(898,709)	(510)	(1,860)	(54)	(28,526)	(939,373)
OTHER FINANCING SOURCES (USES):								
Refunding bonds issued.....	-	-	194,471	-	-	-	-	194,471
Premium on bonds/refunding bonds issued.	-	-	9,162	-	-	-	-	9,162
Transfers in.....	1,876	8,800	904,785	510	1,860	-	28,526	946,357
Payment to refunded bond escrow agent....	-	-	(203,633)	-	-	-	-	(203,633)
NET OTHER FINANCING SOURCES.....	1,876	8,800	904,785	510	1,860	-	28,526	946,357
NET CHANGE IN FUND BALANCES.....	-	962	6,076	-	-	(54)	-	6,984
FUND BALANCES, JULY 1, 2007.....	-	374	19,727	-	-	227	146	20,474
FUND BALANCES, JUNE 30, 2008.....	\$ -	\$ 1,336	\$ 25,803	\$ -	\$ -	\$ 173	\$ 146	\$ 27,458

Capital Projects Funds

-Pennsylvania Symbols-

"State Flower"



The Mountain Laurel is the state flower, as enacted by the General Assembly on May 5, 1933. The mountain laurel is in full bloom in mid-June, when Pennsylvania's woodlands are filled with its distinctive pink flower.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Photo courtesy of the Pennsylvania Department of Conservation and Natural Resources
(www.dcnr.state.pa.us)

**CAPITAL PROJECTS FUNDS
DESCRIPTION
NONMAJOR FUNDS**

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions or other public organizations.

Capital Facilities Fund — to account for general obligation bond proceeds used to fund capital projects specifically itemized and authorized by Capital Budget Acts.

Keystone Recreation, Park and Conservation Fund — to account for bond proceeds and a percentage of the state realty transfer tax. The amounts are used to acquire, improve and expand Commonwealth and community parks, recreation facilities, historic sites, zoos, public libraries, nature preserves and wildlife habitats and other recreational areas and facilities.

Local Criminal Justice Fund — to account for the proceeds of bonds issued for grants to counties and multi-county authorities for the repair, expansion, construction, rehabilitation and improvement of local correctional facilities or multi-county regional prison facilities.

Land and Water Development Fund — to account for the proceeds of bonds issued for pollution remediation; grants to local governments for sewage treatment facilities; the development of public outdoor recreation areas; and, acquisition and development of park and recreation lands and related studies to determine such needs.

There are a total of four individual capital projects funds; all are reported as nonmajor funds.

Commonwealth of Pennsylvania

Combining Balance Sheet-Nonmajor Governmental Funds

Capital Project Funds

June 30, 2008

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Land and Water Development	Total
ASSETS					
Cash.....	\$ 483	\$ 585	\$ -	\$ -	\$ 1,068
Temporary investments.....	556,547	169,586	2,120	1,386	729,639
Receivables, net:					
Accounts.....	14,589	-	-	-	14,589
Accrued interest.....	1,031	322	3	-	1,356
Due from other funds.....	7,705	6,235	-	-	13,940
Due from component units.....	10,447	-	-	-	10,447
Due from political subdivisions.....	1,190	-	-	-	1,190
TOTAL ASSETS.....	\$ 591,992	\$ 176,728	\$ 2,123	\$ 1,386	\$ 772,229
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 169,111	\$ 7,701	\$ -	\$ 62	\$ 176,874
Securities lending obligations.....	56,805	17,309	216	141	74,471
Due to other funds.....	106	1,199	-	-	1,305
Due to political subdivisions.....	52,678	1,232	-	-	53,910
TOTAL LIABILITIES.....	278,700	27,441	216	203	306,560
Fund balances:					
Reserved for:					
Encumbrances.....	939,002	95,477	1,086	357	1,035,922
Other.....	3,165	-	-	1,637	4,802
Unreserved:					
Designated for:					
Capital projects.....	-	53,810	821	-	54,631
Undesignated deficit.....	(628,875)	-	-	(811)	(629,686)
TOTAL FUND BALANCES.....	313,292	149,287	1,907	1,183	465,669
TOTAL LIABILITIES AND FUND BALANCES.	\$ 591,992	\$ 176,728	\$ 2,123	\$ 1,386	\$ 772,229

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Capital Projects Funds

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Land and Water Development	Total
REVENUES:					
Taxes.....	\$ -	\$ 75,914	\$ -	\$ -	\$ 75,914
Charges for sales and services.....	16,383	-	-	-	16,383
Investment income.....	19,768	6,692	15	(7)	26,468
TOTAL REVENUES	36,151	82,606	15	(7)	118,765
EXPENDITURES:					
Current:					
Direction and supportive services.....	17,551	4	1	-	17,556
Protection of persons and property.....	5,944	-	-	427	6,371
Public education.....	15	23,334	-	-	23,349
Recreation and cultural enrichment.....	1,396	56,527	-	-	57,923
Economic development.....	310,265	-	-	-	310,265
Transportation.....	150,159	-	-	-	150,159
Capital outlay.....	428,744	2,298	-	-	431,042
TOTAL EXPENDITURES	914,074	82,163	1	427	996,665
REVENUES OVER (UNDER) EXPENDITURES	(877,923)	443	14	(434)	(877,900)
OTHER FINANCING SOURCES (USES):					
Bonds issued.....	737,098	-	1,500	-	738,598
Premium on bonds/refunding bonds issued..	43,196	-	95	-	43,291
Transfers out.....	(3,000)	-	-	-	(3,000)
NET OTHER FINANCING SOURCES.....	777,294	-	1,595	-	778,889
NET CHANGE IN FUND BALANCES.....	(100,629)	443	1,609	(434)	(99,011)
FUND BALANCES JULY 1, 2007.....	413,921	148,844	298	1,617	564,680
FUND BALANCES JUNE 30, 2008.....	\$ 313,292	\$ 149,287	\$ 1,907	\$ 1,183	\$ 465,669

Enterprise Funds

-Pennsylvania Symbols-

"State Insect"



The firefly is the state insect, as enacted by the General Assembly on April 10, 1974. Act 130 of December 5, 1988, designated the particular species of firefly "Poturis Pennsylvania De Geer" as the official state insect.

The process to make the firefly the state insect began when elementary students in the town of Upper Darby read an article about Maryland adopting a state insect. Pennsylvania lacked a state insect at the time, so the students entered their selection of an insect to the General Assembly. The firefly was formally designated by an enactment from the Pennsylvania General Assembly on April 10, 1974.

Upper Darby Elementary School's Principal at the time, Thomas Hafner and schoolteacher Debe Hill communicated with Governor Milton Shapp to make the effort successful. The students were presented with a bronze plaque in the shape of a keystone which now hangs in the front hall of Highland Park Elementary School.

Information and photo courtesy of the Pennsylvania Historical and Museum Commission
(www.phmc.state.pa.us)

ENTERPRISE FUNDS DESCRIPTION NONMAJOR FUNDS

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

State Stores Fund — to account for the general operations of the Pennsylvania Liquor Control Board. Expenses include all costs associated with the operation and administration of the liquor store system and enforcement of the Liquor Control Law.

Small Business First Fund — to account for and provide loans to eligible small businesses for capital development projects which will create or preserve employment opportunities and which will enhance business development in Pennsylvania. Sources of revenue and financing include loan principal and interest payments, transfers from the General Fund, Federal funds and investment income.

Volunteer Companies Loan Fund — to account for and provide low-interest loans for acquisition and replacement of volunteer fire, ambulance and rescue company equipment and facilities.

Machinery and Equipment Loan Fund — to account for and provide low-interest loans to finance machinery and equipment purchases for eligible Pennsylvania businesses to facilitate their growth, competitiveness and value-added capacity. Sources of revenue and financing include loan principal and interest payments, transfers from the General Fund, and investment income.

Coal and Clay Mine Subsidence Insurance Fund — to account for and provide insurance coverage to homeowners in mining areas against damages resulting from mine subsidence.

Pennsylvania Infrastructure Bank Fund — to account for and provide loans to, or enter into leases with, qualified borrowers to finance the costs of transportation projects. Acts 165 and 7A of 2004 expanded this program to include financing of rail freight infrastructure.

Minority Business Development Fund — to account for and provide low-interest and short-term loans, loan and bond guarantees and other financial and technical assistance, to eligible minority business enterprises and for operating expenses of the Pennsylvania Minority Business Development Authority. Sources of revenue and financing include loan principal and, interest payments, transfers from the General Fund and investment income.

Other — to account for enterprise operations including activities associated with low interest loans to manufacturers, vocational rehabilitation services, and loans and grants provided to attract industrial, manufacturing or research and development enterprises to the Commonwealth. This other category is an aggregation of five individual enterprise funds.

There are a total of sixteen individual enterprise funds; **Unemployment Compensation, State Workers' Insurance, State Lottery and Tuition Payment** enterprise funds are reported as Major Funds in the basic financial statements.

Commonwealth of Pennsylvania
Combining Statement of Net Assets-Nonmajor Proprietary Funds

Enterprise Funds

June 30, 2008

(Amounts in thousands)

	State Stores (June 24, 2008)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
ASSETS									
Current assets:									
Cash	\$ 17,256	\$ 5	\$ 58	\$ -	\$ 190	\$ 1,634	\$ -	\$ 442	\$ 19,585
Temporary investments.....	121,192	66,310	32,183	119,419	84,420	74,926	2,748	17,196	518,394
Receivables:									
Accounts	2,488	-	-	-	-	2,487	-	59	5,034
Accrued interest.....	-	-	98	-	-	-	-	-	98
Loans.....	-	15,426	18,013	12,223	-	6,338	868	517	53,385
Due from other funds	36	-	-	-	-	-	-	1,639	1,675
Due from pension trust funds.....	-	-	-	-	-	-	-	69	69
Due from component units.....	-	-	-	-	-	-	-	1	1
Due from Federal government.....	-	-	-	-	-	-	-	69	69
Other-Advances to other funds.....	-	-	-	-	-	1,400	-	-	1,400
Inventory.....	200,119	-	-	-	-	-	-	4	200,123
Prepaid expenses.....	5	-	-	-	-	-	-	-	5
Total current assets	341,096	81,741	50,352	131,642	84,610	86,785	3,616	19,996	799,838
Noncurrent assets:									
Receivables:									
Loans.....	-	75,011	90,520	46,505	-	35,025	6,417	1,904	255,382
Non-depreciable capital assets:									
Land.....	323	-	-	-	-	-	-	-	323
Construction in progress.....	-	-	-	-	-	-	-	5,563	5,563
Depreciable capital assets:									
Buildings and building improvements.....	21,790	-	-	-	-	-	-	18,307	40,097
Machinery and equipment.....	82,918	-	-	-	72	-	-	4,834	87,824
Less: accumulated depreciation	(56,455)	-	-	-	(19)	-	-	(16,865)	(73,339)
Net depreciable capital assets.....	48,253	-	-	-	53	-	-	6,276	54,582
Total noncurrent assets	48,576	75,011	90,520	46,505	53	35,025	6,417	13,743	315,850
TOTAL ASSETS.....	389,672	156,752	140,872	178,147	84,663	121,810	10,033	33,739	1,115,688

Commonwealth of Pennsylvania
Combining Statement of Net Assets-Nonmajor Proprietary Funds

Enterprise Funds
 June 30, 2008

(Amounts in thousands)

	State Stores (June 24, 2008)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities.....	125,496	975	1,048	535	220	2,476	4	1,566	132,320
Securities lending obligations.....	25,689	14,213	6,898	25,596	18,095	16,060	589	3,686	110,826
Due to other funds.....	3,801	-	-	-	7	-	1	95	3,904
Due to pension trust funds.....	190	-	-	-	1	-	-	1	192
Due to political subdivisions.....	-	24	-	-	-	-	-	-	24
Due to other governments.....	772	-	-	-	2	-	-	1	775
Unearned revenue.....	-	-	89	-	2,978	-	-	150	3,217
Self insurance.....	4,255	6	-	6	22	-	3	209	4,501
Compensated absences.....	3,628	-	-	-	43	-	-	10	3,681
Advances from other funds.....	85,000	3,000	-	-	-	-	-	-	88,000
Total current liabilities.....	248,831	18,218	8,035	26,137	21,368	18,536	597	5,718	347,440
Non-current liabilities:									
Insurance loss liability.....	-	-	-	-	346	-	-	-	346
Compensated absences.....	24,276	-	-	-	288	-	-	1,771	26,335
Self insurance.....	15,431	21	-	22	78	-	13	758	16,323
Total non-current liabilities.....	39,707	21	-	22	712	-	13	2,529	43,004
TOTAL LIABILITIES.....	288,538	18,239	8,035	26,159	22,080	18,536	610	8,247	390,444
NET ASSETS:									
Invested in capital assets, net of related debt.....	48,576	-	-	-	53	-	-	11,839	60,468
Restricted for:									
Smoking cessation and other health-related programs..	-	-	-	-	-	-	-	1,942	1,942
Transportation.....	-	-	-	-	-	103,274	-	-	103,274
Economic stimulus.....	-	138,513	-	151,988	-	-	9,423	-	299,924
Emergency support.....	-	-	132,837	-	-	-	-	-	132,837
Other purposes.....	52,558	-	-	-	62,530	-	-	11,711	126,799
TOTAL NET ASSETS.....	\$ 101,134	\$138,513	\$ 132,837	\$ 151,988	\$ 62,583	\$ 103,274	\$ 9,423	\$ 25,492	\$ 725,244

Commonwealth of Pennsylvania**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets-Nonmajor Proprietary Funds**

Enterprise Funds

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	State Stores (June 24, 2008)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
OPERATING REVENUES:									
Sales and services.....	\$ 1,428,638	\$ -	\$ -	\$ 173	\$ 6,946	\$ -	\$ 21	\$ 1,925	\$ 1,437,703
Interest on loans.....	-	3,233	2,952	1,678	-	1,064	154	40	9,121
Other.....	-	8	-	2	-	-	-	287	297
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....	1,428,638	3,241	2,952	1,853	6,946	1,064	175	2,252	1,447,121
Provision for uncollectible accounts.....	-	3,821	654	1,638	-	-	2,189	4	8,306
NET OPERATING REVENUES.....	1,428,638	7,062	3,606	3,491	6,946	1,064	2,364	2,256	1,455,427
OPERATING EXPENSES:									
Cost of sales and services.....	1,312,921	641	320	602	3,274	42	306	4,039	1,322,145
Depreciation.....	5,582	-	-	-	-	-	-	2,230	7,812
TOTAL OPERATING EXPENSES	1,318,503	641	320	602	3,274	42	306	6,269	1,329,957
OPERATING INCOME (LOSS).....	110,135	6,421	3,286	2,889	3,672	1,022	2,058	(4,013)	125,470
NONOPERATING REVENUES:									
Investment income.....	335	19	5	258	114	287	21	516	1,555
Other revenues.....	-	-	-	-	-	-	-	1,666	1,666
TOTAL NONOPERATING REVENUES.....	335	19	5	258	114	287	21	2,182	3,221
INCOME (LOSS) BEFORE TRANSFERS.....	110,470	6,440	3,291	3,147	3,786	1,309	2,079	(1,831)	128,691
TRANSFERS:									
Transfers in.....	2,505	5	-	5	14	43,880	2	179	46,590
Transfers out.....	(82,068)	-	-	-	-	-	-	-	(82,068)
TOTAL TRANSFERS.....	(79,563)	5	-	5	14	43,880	2	179	(35,478)
CHANGE IN NET ASSETS.....	30,907	6,445	3,291	3,152	3,800	45,189	2,081	(1,652)	93,213
TOTAL NET ASSETS, JULY 1, 2007.....	70,227	132,068	129,546	148,836	58,783	58,085	7,342	27,144	632,031
TOTAL NET ASSETS, JUNE 30, 2008.....	\$ 101,134	\$ 138,513	\$ 132,837	\$ 151,988	\$ 62,583	\$ 103,274	\$ 9,423	\$ 25,492	\$ 725,244

- THIS PAGE INTENTIONALLY LEFT BLANK -

Commonwealth of Pennsylvania

Combining Statement of Cash Flows-Nonmajor Proprietary Funds

Enterprise Funds

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	State Stores (June 24, 2008)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from customers.....	\$ 1,428,152	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,152	\$ 1,431,304
Receipts from borrowers.....	-	22,560	19,401	14,704	-	5,830	956	606	64,057
Receipt of premiums.....	-	-	-	-	6,973	-	-	-	6,973
Payments to claimants.....	-	-	-	-	(1,298)	-	-	-	(1,298)
Payments to borrowers.....	-	(16,531)	(14,787)	(22,888)	-	(13,931)	(2,254)	(810)	(71,201)
Payments for vendors, employees and other costs.....	(1,326,536)	(720)	-	(554)	(2,694)	(42)	(299)	(4,485)	(1,335,330)
Other receipts (payments).....	-	-	-	-	(103)	-	-	2,239	2,136
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	101,616	5,309	4,614	(8,738)	2,878	(8,143)	(1,597)	702	96,641
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:									
Transfers in.....	2,505	5	-	5	14	43,880	2	179	46,590
Transfers out.....	(82,068)	-	-	-	-	-	-	-	(82,068)
Net lendings under advances to other funds	-	-	-	-	-	(1,400)	-	-	(1,400)
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....	(79,563)	5	-	5	14	42,480	2	179	(36,878)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Acquisition and construction of capital assets.....	(20,363)	-	-	-	(4)	-	-	(110)	(20,477)
Disposition of capital assets.....	937	-	-	-	-	-	-	-	937
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(19,426)	-	-	-	(4)	-	-	(110)	(19,540)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments.....	(840,902)	(27,857)	(19,668)	(29,105)	(19,046)	(62,066)	(1,101)	(28,447)	(1,028,192)
Sales and maturities of investments.....	822,028	11,712	9,802	20,779	3,223	15,097	2,420	25,271	910,332
Investment income.....	335	2,259	962	4,293	2,996	1,450	150	546	12,991
Change in securities lending obligations.....	14,606	8,373	4,304	12,766	10,129	12,815	121	1,932	65,046
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(3,933)	(5,513)	(4,600)	8,733	(2,698)	(32,704)	1,590	(698)	(39,823)
NET INCREASE (DECREASE) IN CASH.....	(1,306)	(199)	14	-	190	1,633	(5)	73	400
CASH AT JULY 1, 2007.....	18,562	204	44	-	-	1	5	369	19,185
CASH AT JUNE 30, 2008.....	\$ 17,256	\$ 5	\$ 58	\$ -	\$ 190	\$ 1,634	\$ -	\$ 442	\$ 19,585

Commonwealth of Pennsylvania

Combining Statement of Cash Flows-Nonmajor Proprietary Funds

Enterprise Funds

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	State Stores (June 24, 2008)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES									
Operating income (loss).....	\$ 110,135	\$ 6,421	\$ 3,286	\$ 2,889	\$ 3,672	\$ 1,022	\$ 2,058	\$ (4,013)	\$ 125,470
Depreciation and amortization.....	5,582	-	-	-	-	-	-	2,230	7,812
Provision for uncollectible accounts.....	-	(3,821)	(654)	(1,638)	-	-	(2,189)	(4)	(8,306)
Non-operating revenues.....	-	-	-	-	-	-	-	1,666	1,666
Change in assets and liabilities:									
Accounts receivable.....	(474)	1,876	1,644	(10,523)	-	(11,491)	(1,470)	(306)	(20,744)
Due from fiduciary funds.....	-	-	-	-	-	-	-	(53)	(53)
Inventory.....	(10,991)	-	-	-	-	-	-	-	(10,991)
Due from other funds.....	(7)	-	-	-	-	-	-	1,218	1,211
Due from component units.....	-	-	-	-	-	-	-	5	5
Due from other governments.....	-	-	-	-	-	-	-	(12)	(12)
Other current assets.....	(5)	-	-	-	-	-	-	-	(5)
Accounts payable and accrued liabilities.....	(5,143)	805	329	534	(202)	2,326	3	113	(1,235)
Due to other funds.....	562	-	-	(3)	1	-	-	(4)	556
Due to political subdivisions.....	-	24	-	-	-	-	-	-	24
Due to other governments.....	(165)	-	-	-	-	-	-	(1)	(166)
Unearned revenue.....	-	-	9	-	27	-	-	3	39
Insurance loss liability.....	-	-	-	-	(656)	-	-	-	(656)
Other liabilities.....	2,122	4	-	3	36	-	1	(140)	2,026
Total Adjustments.....	(8,519)	(1,112)	1,328	(11,627)	(794)	(9,165)	(3,655)	4,715	(28,829)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	\$ 101,616	\$ 5,309	\$ 4,614	\$ (8,738)	\$ 2,878	\$ (8,143)	\$ (1,597)	\$ 702	\$ 96,641
Increase (Decrease) in fair value of investments during the fiscal year...	\$ 1,341	\$ (1,471)	\$ (738)	\$ (3,332)	\$ (1,139)	\$ (661)	\$ (46)	\$ (249)	\$ (6,295)

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

Internal Service Funds

-Pennsylvania Symbols-

"State Beverage"



Milk is the official state beverage, as enacted by the General Assembly on April 29, 1982.

The photo is from the 2008 All-American Dairy Show at the Pennsylvania Farm Show Complex and Expo Center.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Photo courtesy of the Pennsylvania Department of Agriculture (www.agriculture.state.pa.us)

INTERNAL SERVICE FUNDS DESCRIPTION

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

Purchasing Fund — to account for the purchase of materials, supplies, motor vehicles and other equipment by the Department of General Services for the sale or lease to other Commonwealth departments, boards or commissions. This fund is also used to account for all Commonwealth telecommunication activities, which are accounted for by the Governor's Executive Offices. Revenue is derived from reimbursements from Commonwealth agencies that use Fund services or products.

Manufacturing Fund — to account for the manufacture and sale of goods and services by inmates in the correctional institutions to the Department of Corrections, other government agencies and government-aided organizations.

There are a total of two individual internal service funds.

Commonwealth of Pennsylvania

Combining Statement of Net Assets-Nonmajor Proprietary Funds

Internal Service Funds

June 30, 2008

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash.....	\$ 4,472	\$ 437	\$ 4,909
Temporary investments.....	36,038	37,066	73,104
Receivables:			
Accounts.....	923	1,561	2,484
Due from other funds.....	20,910	656	21,566
Due from pension trust funds.....	205	2,498	2,703
Due from component units.....	549	3	552
Due from Federal government.....	-	14	14
Due from other governments.....	-	23	23
Inventory.....	163	9,543	9,706
Other assets.....	-	2	2
Total current assets.....	<u>63,260</u>	<u>51,803</u>	<u>115,063</u>
Noncurrent assets:			
Non-depreciable capital assets:			
Land.....	-	6	6
Depreciable capital assets:			
Land improvements.....	-	200	200
Buildings and building improvements.....	-	5,225	5,225
Machinery and equipment.....	86,872	19,695	106,567
Less: accumulated depreciation.....	(56,786)	(13,226)	(70,012)
Net depreciable capital assets.....	<u>30,086</u>	<u>11,894</u>	<u>41,980</u>
Total noncurrent assets.....	<u>30,086</u>	<u>11,900</u>	<u>41,986</u>
TOTAL ASSETS.....	<u>93,346</u>	<u>63,703</u>	<u>157,049</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities.....	27,786	6,568	34,354
Securities lending obligations.....	7,724	7,945	15,669
Due to other funds.....	353	152	505
Due to pension trust funds.....	5	19	24
Due to other governments.....	12	32	44
Unearned revenue.....	-	8	8
Self insurance liabilities.....	93	275	368
Compensated absences.....	67	182	249
Advances from other funds.....	14,300	-	14,300
Total current liabilities.....	<u>50,340</u>	<u>15,181</u>	<u>65,521</u>
Non-current liabilities:			
Compensated absences.....	448	1,218	1,666
Self insurance.....	338	997	1,335
Total non-current liabilities.....	<u>786</u>	<u>2,215</u>	<u>3,001</u>
TOTAL LIABILITIES.....	<u>51,126</u>	<u>17,396</u>	<u>68,522</u>
NET ASSETS:			
Invested in capital assets, net of related debt...	30,086	11,900	41,986
Restricted for:			
Correctional industries and procurement.....	12,134	34,407	46,541
TOTAL NET ASSETS.....	<u>\$ 42,220</u>	<u>\$ 46,307</u>	<u>\$ 88,527</u>

Commonwealth of Pennsylvania
Combining Statement of Revenues, Expenses, and Changes in Fund
Net Assets-Nonmajor Proprietary Funds
Internal Service Funds
For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 29,897	\$ 56,034	\$ 85,931
Other.....	16	65	81
NET OPERATING REVENUES.....	<u>29,913</u>	<u>56,099</u>	<u>86,012</u>
OPERATING EXPENSES:			
Cost of sales and services.....	8,597	51,914	60,511
Depreciation.....	10,418	1,197	11,615
TOTAL OPERATING EXPENSES	<u>19,015</u>	<u>53,111</u>	<u>72,126</u>
OPERATING INCOME.....	<u>10,898</u>	<u>2,988</u>	<u>13,886</u>
NONOPERATING REVENUES:			
Investment income.....	543	48	591
INCOME BEFORE TRANSFERS.....	<u>11,441</u>	<u>3,036</u>	<u>14,477</u>
TRANSFERS:			
Transfers in.....	63	156	219
CHANGE IN NET ASSETS.....	<u>11,504</u>	<u>3,192</u>	<u>14,696</u>
TOTAL NET ASSETS, JULY 1, 2007.....	<u>30,716</u>	<u>43,115</u>	<u>73,831</u>
TOTAL NET ASSETS, JUNE 30, 2008.....	<u>\$ 42,220</u>	<u>\$ 46,307</u>	<u>\$ 88,527</u>

Commonwealth of Pennsylvania
Combining Statement of Cash Flows-Nonmajor Proprietary Funds
Internal Service Funds
For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers.....	\$ 34,811	\$ 53,918	\$ 88,729
Payments for vendors, employees and other costs.....	(15,440)	(51,289)	(66,729)
Other receipts.....	16	35	51
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>19,387</u>	<u>2,664</u>	<u>22,051</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers in.....	63	156	219
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES.....	<u>63</u>	<u>156</u>	<u>219</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	(10,559)	(924)	(11,483)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(10,559)</u>	<u>(924)</u>	<u>(11,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(304,480)	(42,199)	(346,679)
Sales and maturities of investments.....	290,152	34,493	324,645
Investment income.....	823	1,051	1,874
Change in securities lending obligations.....	5,273	4,713	9,986
NET CASH USED FOR INVESTING ACTIVITIES.....	<u>(8,232)</u>	<u>(1,942)</u>	<u>(10,174)</u>
NET INCREASE (DECREASE) IN CASH.....	659	(46)	613
CASH AT JULY 1, 2007.....	3,813	483	4,296
CASH AT JUNE 30, 2008.....	<u>\$ 4,472</u>	<u>\$ 437</u>	<u>\$ 4,909</u>

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES

Operating income.....	\$ 10,898	\$ 2,988	\$ 13,886
Depreciation and amortization.....	10,418	1,197	11,615
Change in assets and liabilities:			
Accounts receivable.....	473	(1,477)	(1,004)
Inventory.....	(28)	981	953
Due from other funds.....	(12,505)	(639)	(13,144)
Due from other governments.....	-	(30)	(30)
Due from component units.....	54	-	54
Other current assets.....	-	169	169
Accounts payable and accrued liabilities.....	10,029	(1,014)	9,015
Due to other funds.....	55	127	182
Due to other governments.....	(8)	4	(4)
Other liabilities.....	1	358	359
Total Adjustments.....	<u>8,489</u>	<u>(324)</u>	<u>8,165</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>\$ 19,387</u>	<u>\$ 2,664</u>	<u>\$ 22,051</u>
Decrease in fair value of investments during the fiscal year.....	\$ (247)	\$ (716)	\$ (963)

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

Pension (and Other Employee Benefit) Trust Funds

-Pennsylvania Symbols-

"State Tree"



The Eastern Hemlock (*Tsuga canadensis*), the state tree of Pennsylvania, is one of the dominant trees of the Commonwealth's forests. The tree can grow to a height greater than one hundred feet and is found in every Pennsylvania county, but most commonly in the mountainous regions. This slow-growing long-lived tree thrives in the shade and may take 250 to 300 years to fully mature and may live for 800 years or more. The hemlock, identified as an evergreen tree, has flat needles 1/3-2/3-inch long and 1/2-3/4-inch cones that mature from September to October.

Hemlocks were major assets in the lives of the State's first settlers because they were used to build log homes and protect settlers' families from weather and other dangers. Soon, the eastern hemlock was a major contributor to Pennsylvania's industry. By the end of the 19th century, hemlock bark was the major source of tannin for the leather industry. In 1896 in the Commonwealth alone, over 1.3 billion board feet of hemlock was harvested. The bark was sent to tanneries and the logs to sawmills.

In 1896 the "Father of Pennsylvania Forestry" Dr. Joseph T. Rothrock stated, "If Pennsylvania were to select one tree as characteristic of our State, nothing would be better than the Hemlock". A.J. Downing, the father of landscape gardening in America, called the hemlock the most picturesque and beautiful of the world's evergreens. In 1927, the Pennsylvania legislature debated the merits of several nominations for the State tree, but no decision was reached. In 1931 lawmakers were again asked to make a ruling, and after considerable debate, the eastern hemlock was adopted June 22, 1931.

Information and photos courtesy of the Pennsylvania Department of Conservation and Natural Resources (www.dcnr.state.pa.us)

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS DESCRIPTION

Pension (and other employee benefit trust) funds account for assets that are required to be held in trust for the members and beneficiaries of defined benefit pension plans and other post employment benefit plan and are held by the Commonwealth in a trustee capacity.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

State Employees' Retirement System — a component unit organization that accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries.

Deferred Compensation Fund — a pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

Public School Employees' Retirement System — a component unit organization that administers and provides pension benefits to public school employees in Pennsylvania.

Other Postemployment Benefits Investment Pool — an other postemployment benefits trust fund that holds and invests amounts contributed by the Commonwealth of Pennsylvania for the sole purpose of providing post retirement health programs to retired employees and retired Pennsylvania State Police.

Commonwealth of Pennsylvania
Combining Statement of Fiduciary Net Assets
Pension (and Other Employee Benefit) Trust Funds
June 30, 2008

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust				
	State Employees' Retirement System (December 31, 2007)	Deferred Compensation (December 31, 2007)	Public School Employees' Retirement System	Other Postemployment Benefits Investment Pool	Total
ASSETS					
Cash.....	\$ -	\$ 2,691	\$ -	\$ -	\$ 2,691
Temporary investments.....	-	4,904	-	123,393	128,297
Long-term investments.....	-	32,354	-	-	32,354
Short-term funds.....	1,142,881	45,567	7,022,511	-	8,210,959
Corporate obligations.....	1,285,624	120,682	3,568,472	-	4,974,778
Collective trust funds.....	4,901,215	-	7,103,720	-	12,004,935
Real estate.....	3,044,609	-	4,951,840	-	7,996,449
Alternative.....	15,060,919	-	8,865,652	-	23,926,571
Securities lending collateral.....	2,635,880	-	4,846,999	-	7,482,879
Asset-backed securities.....	128,341	9,513	-	-	137,854
Domestic equities.....	1,089,770	894,118	8,995,463	-	10,979,351
International equities.....	5,461,077	132,906	14,071,010	-	19,664,993
International private debt securities.....	-	-	873,674	-	873,674
International public debt securities.....	521,593	10,061	1,265,401	-	1,797,055
Mortgage-backed securities.....	815,504	61,590	5,389,010	-	6,266,104
Private placements.....	373,114	12,585	-	-	385,699
State and municipal obligations.....	-	208	-	-	208
U.S. Treasury obligations.....	1,822,788	123,985	1,683,229	-	3,630,002
U.S. government agency debt securities.....	52,060	388,160	102,238	-	542,458
Receivables, net:					
Accrued interest.....	84,374	-	-	-	84,374
Pension contributions.....	-	5,241	548,775	-	554,016
Investment sale proceeds.....	190,076	362	1,464,272	-	1,654,710
Other.....	4,158	196	239,144	-	243,498
Due from other funds.....	2,138	-	2,171	-	4,309
Due from pension trust funds.....	8,249	-	3,285	-	11,534
Due from component units.....	3,091	-	-	-	3,091
Due from political subdivisions.....	3,442	-	-	-	3,442
Due from other governments.....	-	-	45	-	45
Depreciable capital assets:					
Machinery and equipment.....	-	-	11,454	-	11,454
Less: accumulated depreciation.....	-	-	(10,789)	-	(10,789)
Net depreciable capital assets.....	-	-	665	-	665
TOTAL ASSETS.....	38,630,903	1,845,123	70,997,576	123,393	111,596,995
LIABILITIES					
Liabilities:					
Accounts payable and accrued liabilities..	58,004	805	87,369	-	146,178
Investment purchases payable.....	420,821	-	2,891,129	-	3,311,950
Securities lending obligations.....	2,635,880	-	4,846,999	12,593	7,495,472
Due to other funds.....	-	-	1,034	-	1,034
Due to pension trust funds.....	-	62	4,545	-	4,607
Other liabilities.....	-	-	507,876	-	507,876
TOTAL LIABILITIES.....	3,114,705	867	8,338,952	12,593	11,467,117
NET ASSETS:					
Held in trust for:					
Pension and other employee benefits.....	35,516,198	-	62,473,426	-	97,989,624
Healthcare benefits.....	-	-	185,198	110,800	295,998
Employee salary deferrals.....	-	1,844,256	-	-	1,844,256
TOTAL NET ASSETS.....	\$ 35,516,198	\$ 1,844,256	\$ 62,658,624	\$ 110,800	\$ 100,129,878

Commonwealth of Pennsylvania

Combining Statement of Changes in Fiduciary Net Assets

Pension (and Other Employee Benefit) Trust Funds

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust				
	State Employees' Retirement System (December 31, 2007)	Deferred Compensation (December 31, 2007)	Public School Employees' Retirement System	Other Postemployment Benefits Investment Pool	Total
ADDITIONS:					
Pension contributions:					
Employer.....	\$ 243,936	\$ -	\$ 863,275	\$ 110,800	\$ 1,218,011
Employee.....	333,818	159,777	1,039,161	-	1,532,756
Transfer in from other plans.....	-	56,228	-	-	56,228
Total contributions.....	577,754	216,005	1,902,436	110,800	2,806,995
Investment income:					
Net appreciation in					
fair value of investments.....	4,963,172	85,620	(3,763,381)	-	1,285,411
Interest income.....	347,507	29,213	969,532	-	1,346,252
Dividend income.....	149,488	-	763,615	-	913,103
Rental and other income.....	118,297	-	604,932	-	723,229
Total investment activity income.....	5,578,464	114,833	(1,425,302)	-	4,267,995
Less: investment expenses					
Investment activity expense.....	(344,707)	(1,502)	(399,136)	-	(745,345)
Net investment earnings.....	5,233,757	113,331	(1,824,438)	-	3,522,650
Securities lending activities:					
Income.....	155,067	-	319,107	-	474,174
Expenses.....	(142,094)	-	(270,254)	-	(412,348)
Total securities lending income.....	12,973	-	48,853	-	61,826
Total net investment income.....	5,246,730	113,331	(1,775,585)	-	3,584,476
TOTAL ADDITIONS.....	5,824,484	329,336	126,851	110,800	6,391,471
DEDUCTIONS:					
Benefit payments.....	2,328,185	47,753	4,895,811	-	7,271,749
Refunds of contributions.....	8,183	-	28,713	-	36,896
Transfers to other plans.....	-	130,710	17,157	-	147,867
Administrative expenses.....	24,748	181	49,250	-	74,179
Other expenses.....	-	3,086	-	-	3,086
TOTAL DEDUCTIONS.....	2,361,116	181,730	4,990,931	-	7,533,777
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:					
Pension and other employee benefits.....	3,463,368	-	(4,867,571)	-	(1,404,203)
Healthcare benefits.....	-	-	3,491	110,800	114,291
Employee salary deferrals.....	-	147,606	-	-	147,606
TOTAL CHANGE IN PLAN NET ASSETS HELD IN TRUST.....	3,463,368	147,606	(4,864,080)	110,800	(1,142,306)
Net assets, July 1, 2007.....	32,052,830	1,696,650	67,522,704	-	101,272,184
Net assets, June 30, 2008.....	\$ 35,516,198	\$ 1,844,256	\$ 62,658,624	\$ 110,800	\$ 100,129,878

Agency Funds

-Pennsylvania Symbols-

“State Flagship”



The restored United States Brig *Niagara* is the Flagship of Pennsylvania, as enacted by the General Assembly on May 26, 1988. The *Niagara*, the flagship of Commodore Oliver Hazard Perry, was decisive in defeating a British squadron at the Battle of Lake Erie, on September 10, 1813. Its home port is Erie.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

Photo courtesy of the Pennsylvania Department of General Services (www.dgs.state.pa.us)

AGENCY FUNDS DESCRIPTION

Agency funds account for assets held by the Commonwealth as an agent for individuals, private organizations, or other governmental units.

AGENCY FUNDS

Statutory Liquidator Fund — to convert the remaining assets of insolvent insurance companies to cash for remittance to creditors, policyholders and stockholders in accordance with the order of distribution established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders and stockholders.

Medical Care Availability and Reduction of Error Fund — to collect surcharges from health care providers and remit payments for judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies. Succeeded the Medical Professional Liability Catastrophe Loss Fund effective October 1, 2002.

Allegheny Regional Asset District Sales and Use Tax Fund — to collect an additional 1% sales tax remitted by Allegheny County business entities to the Department of Revenue, as established per Act 1993-77. On a monthly basis, the Treasury Department distributes the fund balance to qualified County entities in accordance with the requirements of the Act.

Underground Storage Tank Indemnification Fund — to collect assessments and remit claim payments to owners and operators of underground storage tanks who incur a liability for taking corrective action, for bodily injury or for property damage caused by a release from underground storage tanks.

Municipal Pension Aid Fund — to collect a two percent premium tax received from foreign (out-of-state) casualty insurance companies conducting business in the Commonwealth, which are remitted to municipalities to help defray municipal police and fire pension fund costs.

Fire Insurance Tax Fund — to collect a two-percent premium tax received from foreign (out-of-state) fire insurance companies conducting business in the Commonwealth, which are remitted to local governments. The municipalities must pay these monies to the relief, pension or retirement fund of their recognized fire fighting organization.

Agency Custodial Accounts — to account for the assets of patients, residents, inmates and other non-Commonwealth funds for which the Commonwealth is the account custodian.

Other — to collect and administer funds from various sources for distribution to other state and local governments or the Federal Government. This other category is an aggregation of five individual agency funds.

Pennsylvania Life and Health Insurance Guaranty Association and **Pennsylvania Property and Casualty Insurance Guaranty Association** — are component unit organizations which protect policy owners, insured persons/organizations and others from losses due to potential insurer failure due to the impairment or insolvency of member insurance carriers.

There are a total of fourteen individual agency funds.

Commonwealth of Pennsylvania
Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2008

(Amounts in thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Allegheny Regional Asset District Sales and Use Tax	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodian Accounts	Other	PA Life and Health Insurance Guaranty Association (December 31, 2007)	PA Property and Casualty Insurance Guaranty Association (December 31, 2007)	Total Agency Funds
ASSETS											
Cash.....	\$ -	\$ 1,759	\$ 81	\$ 3,213	\$ -	\$ -	\$ 11,634	\$ 143	\$ 2,790	\$ 13,603	\$ 33,223
Cash with fiscal agents.....	38,270	-	-	-	-	-	-	-	-	-	38,270
Temporary investments.....	96,084	183,885	15,122	68,902	235,100	96,553	18,264	33,207	297,610	79,113	1,123,840
Long-term investments.....	2,760,788	-	-	84,441	-	-	-	-	-	-	2,845,229
Receivables, net:											
Taxes.....	-	-	12,851	-	-	-	-	15,997	-	-	28,848
Accounts.....	173,495	-	-	-	-	-	3,451	-	-	-	176,946
Accrued interest.....	13	-	43	615	1,359	348	-	78	-	-	2,456
Loans.....	-	-	-	554	-	-	-	-	-	-	554
Investment sale proceeds.....	-	-	-	289	-	-	-	-	-	-	289
Other.....	-	-	-	-	-	-	-	-	-	183,970	183,970
Advances to other funds.....	-	-	-	70,500	-	-	-	-	-	-	70,500
Other assets.....	2,486,553	-	-	-	-	-	884	-	-	127	2,487,564
TOTAL ASSETS.....	\$ 5,555,203	\$ 185,644	\$ 28,097	\$ 228,514	\$ 236,459	\$ 96,901	\$ 34,233	\$ 49,425	\$ 300,400	\$ 276,813	\$ 6,991,689
LIABILITIES											
Accounts payable and accrued liabilities....	\$ -	\$ 1,918	\$ 247	\$ 25,614	\$ -	\$ -	\$ 10,843	\$ 75	\$ -	\$ -	\$ 38,697
Investment purchases payable.....	-	-	-	1,342	-	-	-	-	-	-	1,342
Securities lending obligations.....	18,598	39,414	1,543	28,337	23,996	9,855	-	3,792	-	-	125,535
Due to political subdivisions.....	-	-	26,307	-	212,463	87,046	-	42,725	-	-	368,541
Due to other governments.....	-	11	-	216	-	-	-	-	-	-	227
Self insurance liabilities.....	-	337	-	52	-	-	-	-	-	-	389
Other liabilities.....	5,536,605	143,964	-	172,953	-	-	23,390	2,833	300,400	276,813	6,456,958
TOTAL LIABILITIES.....	\$ 5,555,203	\$ 185,644	\$ 28,097	\$ 228,514	\$ 236,459	\$ 96,901	\$ 34,233	\$ 49,425	\$ 300,400	\$ 276,813	\$ 6,991,689

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Assets

Agency Funds

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash with fiscal agents.....	\$ 67,990	\$ 158,999	\$ 188,719	\$ 38,270
Temporary investments.....	110,418	301,082	315,416	96,084
Long-term investments.....	2,317,358	1,464,502	1,021,072	2,760,788
Receivables, net:				
Accounts.....	208,171	43,541	78,217	173,495
Accrued interest.....	71	13	71	13
Other assets.....	2,251,109	265,654	30,210	2,486,553
TOTAL ASSETS	\$ 4,955,117	\$ 2,233,791	\$ 1,633,705	\$ 5,555,203
LIABILITIES				
Securities lending obligations.....	8,641	18,633	8,676	18,598
Other liabilities.....	4,946,476	5,536,605	4,946,476	5,536,605
TOTAL LIABILITIES	\$ 4,955,117	\$ 5,555,238	\$ 4,955,152	\$ 5,555,203
MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND				
ASSETS				
Cash.....	\$ 2	\$ 772,276	\$ 770,519	\$ 1,759
Temporary investments.....	152,148	253,571	221,834	183,885
Receivables, net:				
Accounts.....	1,379	9	1,388	-
TOTAL ASSETS	\$ 153,529	\$ 1,025,856	\$ 993,741	\$ 185,644
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 3,379	\$ 1,756,305	\$ 1,757,766	\$ 1,918
Securities lending obligations.....	16,955	45,154	22,695	39,414
Due to other funds.....	-	24	24	-
Due to political subdivisions.....	-	24	24	-
Due to other governments.....	10	17	16	11
Self insurance liabilities.....	296	337	296	337
Other liabilities.....	132,889	11,075	-	143,964
TOTAL LIABILITIES	\$ 153,529	\$ 1,812,936	\$ 1,780,821	\$ 185,644
ALLEGHENY REGIONAL ASSET DISTRICT SALES AND USE TAX FUND				
ASSETS				
Cash.....	\$ 129	\$ 364,332	\$ 364,380	\$ 81
Temporary investments.....	14,488	161,447	160,813	15,122
Receivables, net:				
Taxes.....	11,089	12,852	11,090	12,851
Accrued interest.....	28	15	-	43
TOTAL ASSETS	\$ 25,734	\$ 538,646	\$ 536,283	\$ 28,097
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 416	\$ 3,434	\$ 3,603	\$ 247
Securities lending obligations.....	327	1,654	438	1,543
Due to political subdivisions.....	24,991	12,852	11,536	26,307
TOTAL LIABILITIES	\$ 25,734	\$ 17,940	\$ 15,577	\$ 28,097

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Assets
Agency Funds (continued)
For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
UNDERGROUND STORAGE TANK INDEMNIFICATION FUND				
ASSETS				
Cash.....	\$ 652	\$ 562,474	\$ 559,913	\$ 3,213
Temporary investments.....	63,225	131,278	125,601	68,902
Long-term investments.....	85,040	73,304	73,903	84,441
Receivables, net:				
Accrued interest.....	566	129	80	615
Loans.....	2,030	2,503	3,979	554
Investment sale proceeds.....	295	584	590	289
Advances to other funds.....	76,500	-	6,000	70,500
TOTAL ASSETS	\$ 228,308	\$ 770,272	\$ 770,066	\$ 228,514
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 23,105	\$ 278,193	\$ 275,684	\$ 25,614
Investment purchases payable.....	587	1,929	1,174	1,342
Securities lending obligations.....	16,017	33,790	21,470	28,337
Due to other funds.....	-	9	9	-
Due to political subdivisions.....	-	709	709	-
Due to other governments.....	3	217	4	216
Self insurance liabilities.....	49	52	49	52
Other liabilities.....	188,547	8,344	23,938	172,953
TOTAL LIABILITIES	\$ 228,308	\$ 323,243	\$ 323,037	\$ 228,514
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash.....	\$ -	\$ 661,537	\$ 661,537	\$ -
Temporary investments.....	217,855	242,903	225,658	235,100
Receivables, net:				
Accrued interest.....	918	441	-	1,359
TOTAL ASSETS	\$ 218,773	\$ 904,881	\$ 887,195	\$ 236,459
LIABILITIES				
Securities lending obligations.....	\$ 4,910	\$ 25,658	\$ 6,572	\$ 23,996
Due to political subdivisions.....	213,863	441	1,841	212,463
TOTAL LIABILITIES	\$ 218,773	\$ 26,099	\$ 8,413	\$ 236,459
FIRE INSURANCE TAX FUND				
ASSETS				
Cash.....	\$ -	\$ 354,072	\$ 354,072	\$ -
Temporary investments.....	86,095	97,032	86,574	96,553
Receivables, net:				
Accrued interest.....	348	-	-	348
TOTAL ASSETS	\$ 86,443	\$ 451,104	\$ 440,646	\$ 96,901
LIABILITIES				
Securities lending obligations.....	\$ 1,940	\$ 10,512	\$ 2,597	\$ 9,855
Due to political subdivisions.....	84,503	2,543	-	87,046
TOTAL LIABILITIES	\$ 86,443	\$ 13,055	\$ 2,597	\$ 96,901

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Assets
Agency Funds (continued)
For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash.....	\$ 13,636	\$ 2,774	\$ 4,776	\$ 11,634
Temporary investments.....	13,395	10,716	5,847	18,264
Receivables, net:				
Accounts.....	3,428	81	58	3,451
Accrued interest.....	1	-	1	-
Other assets.....	3,077	344	2,537	884
TOTAL ASSETS	\$ 33,537	\$ 13,915	\$ 13,219	\$ 34,233
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 9,407	\$ 1,549	\$ 113	\$ 10,843
Other liabilities.....	24,130	8,484	9,224	23,390
TOTAL LIABILITIES	\$ 33,537	\$ 10,033	\$ 9,337	\$ 34,233
OTHER FUNDS				
ASSETS				
Cash.....	\$ 196	\$ 1,713,766	\$ 1,713,819	\$ 143
Temporary investments.....	33,038	449,987	449,818	33,207
Receivables, net:				
Taxes.....	13,903	16,058	13,964	15,997
Accrued interest.....	56	32	10	78
TOTAL ASSETS	\$ 47,193	\$ 2,179,843	\$ 2,177,611	\$ 49,425
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 139	\$ 1,110,979	\$ 1,111,043	\$ 75
Securities lending obligations.....	1,031	4,143	1,382	3,792
Due to other funds.....	-	473	473	-
Due to political subdivisions.....	43,127	52,788	53,190	42,725
Other liabilities.....	2,896	-	63	2,833
TOTAL LIABILITIES	\$ 47,193	\$ 1,168,383	\$ 1,166,151	\$ 49,425
PENNSYLVANIA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION*				
ASSETS				
Cash.....	\$ 12,398	\$ 37,624	\$ 47,232	\$ 2,790
Temporary investments.....	257,870	43,105	3,365	297,610
TOTAL ASSETS	\$ 270,268	\$ 80,729	\$ 50,597	\$ 300,400
LIABILITIES				
Other liabilities.....	\$ 270,268	\$ 30,132	\$ -	\$ 300,400
TOTAL LIABILITIES	\$ 270,268	\$ 30,132	\$ -	\$ 300,400

*-Amounts are presented on a calendar year basis.

(continued)

Commonwealth of Pennsylvania
Combining Statement of Changes in Fiduciary Net Assets

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
PENNSYLVANIA PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION(1)				
ASSETS				
Cash.....	\$ 4,949	\$ 28,578	\$ 19,924	\$ 13,603
Temporary investments.....	88,709	3,779	13,375	79,113
Long-term investments.....	3,489	-	3,489	-
Receivables, net:				
Accounts.....	247	-	247	-
Other.....	183,964	6	-	183,970
Other assets.....	133	-	6	127
TOTAL ASSETS	\$ 281,491	\$ 32,363	\$ 37,041	\$ 276,813
LIABILITIES				
Other liabilities.....	\$ 281,491	\$ 19,322	\$ 24,000	\$ 276,813
TOTAL LIABILITIES	\$ 281,491	\$ 19,322	\$ 24,000	\$ 276,813
TOTAL — AGENCY FUNDS(2)				
ASSETS				
Cash.....	\$ 31,962	\$ 4,497,433	\$ 4,496,172	\$ 33,223
Cash with fiscal agents.....	67,990	158,999	188,719	38,270
Temporary investments.....	1,037,241	1,694,900	1,608,301	1,123,840
Long-term investments.....	2,405,887	1,537,806	1,098,464	2,845,229
Receivables, net:				
Taxes.....	24,992	28,910	25,054	28,848
Accounts.....	213,225	43,631	79,910	176,946
Accrued interest.....	1,988	630	162	2,456
Loans.....	2,030	2,503	3,979	554
Investment sale proceeds.....	295	584	590	289
Other.....	183,964	6	-	183,970
Advances to other funds.....	76,500	-	6,000	70,500
Other assets.....	2,254,319	265,998	32,753	2,487,564
TOTAL ASSETS	\$ 6,300,393	\$ 8,231,400	\$ 7,540,104	\$ 6,991,689
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 36,446	\$ 3,150,460	\$ 3,148,209	\$ 38,697
Investment purchases payable.....	587	1,929	1,174	1,342
Securities lending obligations.....	49,821	139,544	63,830	125,535
Due to other funds.....	-	506	506	-
Due to political subdivisions.....	366,484	69,357	67,300	368,541
Due to other governments.....	13	234	20	227
Self insurance liabilities.....	345	389	345	389
Other liabilities.....	5,846,697	5,613,962	5,003,701	6,456,958
TOTAL LIABILITIES	\$ 6,300,393	\$ 8,976,381	\$ 8,285,085	\$ 6,991,689

(1)-Amounts are presented on a calendar year basis.

(2)-Totals include balances for the Pennsylvania Life and Health Insurance Guaranty Association and the Pennsylvania Property and Casualty Insurance Guaranty Association, which are presented on a calendar year basis.

Nonmajor Discretely Presented Component Units

-Pennsylvania Symbols-

"State Song"

The official state song of the Commonwealth of Pennsylvania was adopted by the General Assembly and signed into law by Governor Robert P. Casey on November 29, 1990. This song, "Pennsylvania," was written and composed by Eddie Khoury and Ronnie Bonner and is the official song for all public purposes.

"PENNSYLVANIA"

Verse 1

Pennsylvania, Pennsylvania,
Mighty is your name,
Steeped in glory and tradition,
Object of acclaim.
Where brave men fought the foe of freedom,
Tyranny decried,
'Til the bell of independence
filled the countryside.

Chorus

Pennsylvania, Pennsylvania,
May your future be,
filled with honor everlasting
as your history.

Verse 2

Pennsylvania, Pennsylvania,
Blessed by God's own hand,
Birthplace of a mighty nation,
Keystone of the land.
Where first our country's flag unfolded,
Freedom to proclaim,
May the voices of tomorrow
glorify your name.

Chorus

Pennsylvania, Pennsylvania,
May your future be,
filled with honor everlasting
as your history.

Information courtesy of the Pennsylvania Historical and Museum Commission (www.phmc.state.pa.us)

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS DESCRIPTION

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable, or other organizations for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

State Public School Building Authority (SPSBA) — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts. These bonds are repaid solely from lease/loan payments from the schools.

Philadelphia Shipyard Development Corporation (PSDC) — assists the primary government (PG) and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. For the purposes of this report, the PSDC has a December 31, 2007 fiscal year end.

Ben Franklin Technology Development Authority (BFTDA) — promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the PTDA, also increase Pennsylvania business competitiveness.

Insurance Fraud Prevention Authority (IFPA) — assists in the prevention, discovery, investigation and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties and awards.

Pennsylvania Higher Educational Facilities Authority (PHEFA) — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the colleges and universities.

Patient Safety Trust Authority (PSTA) — takes steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities and birthing centers.

Port of Pittsburgh Commission (PPC) — promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities.

Pennsylvania Industrial Development Authority (PIDA) — collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas or assist specific companies.

Philadelphia Regional Port Authority (PRPA) — operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania.

Commonwealth Financing Authority (CFA) — administers and funds economic stimulus programs.

Thaddeus Stevens College of Technology (College) — presents a financial burden to the PG, as the PG appropriates monies for College operations. The College was financially reported as part of the PG through and including the fiscal year ended June 30, 2003; legislation effective July 1, 2003 made the College a legally separate entity.

There are a total of twenty-two component units; sixteen are discretely presented. The State Employees' Retirement System (SERS) and Public School Employee's Retirement System (PSERS) are reported as Pension Trust Funds in the Statement of Fiduciary Net Assets, while the Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) and Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) are reported as Agency Funds. The **Pennsylvania Turnpike Commission (PTC)**, **Pennsylvania Housing Finance Agency (PHFA)**, **Pennsylvania Higher Education Assistance Agency (PHEAA)**, **Pennsylvania Infrastructure Investment Authority (PENNVEST)**, and **State System of Higher Education (SSHE)** are reported as major component units. The Pennsylvania Economic Development Financing Authority (PEDFA) and Pennsylvania Energy Development Authority (PEDA) are not reported because their only activities involve conduit debt.

Commonwealth of Pennsylvania
Combining Statement of Net Assets
Nonmajor Discretely Presented Component Units
June 30, 2008
(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2007)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
ASSETS					
Current assets:					
Cash.....	\$ -	\$ 4,511	\$ -	\$ 4,149	\$ -
Temporary investments.....	28,227	-	53,794	-	-
Receivables:					
Accounts	31	-	-	-	29
Accrued interest.....	85	-	-	-	-
Loans.....	1,485	-	208	-	-
Lease rentals.....	-	-	-	-	-
Other	-	36	-	-	-
Due from primary government.....	-	-	-	-	-
Due from Federal government.....	-	-	344	-	-
Due from other governments	-	-	-	-	-
Inventory.....	-	-	-	-	-
Prepaid and deferred expenses.....	-	35	-	20	-
Other assets.....	-	-	-	5	-
Total current assets	29,828	4,582	54,346	4,174	29
Noncurrent assets:					
Long-term investments.....	1,017	-	-	-	-
Receivables (net):					
Loans.....	611	22,611	34,512	-	-
Lease rentals.....	-	-	-	-	-
Non-depreciable capital assets:					
Land.....	-	161	-	-	-
Construction in progress.....	-	-	-	-	-
Depreciable capital assets:					
Land improvements.....	-	-	-	-	-
Buildings and building improvements.....	-	-	-	-	-
Machinery and equipment.....	488	-	-	80	-
Library books.....	-	-	-	-	-
Other capital assets.....	-	-	-	-	-
Less: accumulated depreciation.....	(425)	-	-	(33)	-
Net depreciable capital assets.....	63	-	-	47	-
Other assets.....	-	-	-	-	-
Total noncurrent assets	1,691	22,772	34,512	47	-
TOTAL ASSETS	31,519	27,354	88,858	4,221	29
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities.....	344	26	5,616	36	29
Securities lending obligations.....	-	-	11,291	-	-
Due to primary government.....	-	-	1	-	-
Due to political subdivisions.....	-	-	125	-	-
Interest payable.....	-	-	-	-	-
Unearned revenue.....	-	-	-	-	-
Notes payable.....	-	-	-	-	-
Revenue bonds payable.....	-	-	-	-	-
Compensated absences.....	128	-	-	-	-
Other liabilities.....	66	-	-	-	-
Total current liabilities.....	538	26	17,033	36	29
Non-current liabilities:					
Notes payable.....	-	22,611	-	-	-
Revenue bond payable.....	-	-	-	-	-
Compensated absences.....	32	-	-	-	-
Other liabilities.....	604	-	-	-	-
Total non-current liabilities.....	636	22,611	-	-	-
TOTAL LIABILITIES	1,174	22,637	17,033	36	29
NET ASSETS:					
Invested in capital assets, net of related debt.....	62	161	-	47	-
Restricted for:					
Smoking cessation and other health-related programs.....	-	-	-	-	-
Capital projects.....	-	-	-	-	-
Debt service.....	-	-	-	-	-
Economic stimulus.....	-	4,556	71,825	-	-
Higher Education.....	-	-	-	-	-
Other purposes.....	30,283	-	-	4,138	-
Unrestricted.....	-	-	-	-	-
TOTAL NET ASSETS	\$ 30,345	\$ 4,717	\$ 71,825	\$ 4,185	\$ -

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Thaddeus Stevens College of Technology	Total
\$ - 4,212	\$ - 4,215	\$ 401 105,665	\$ 3,671 -	\$ 435,076 -	\$ 3,097 -	\$ 450,905 196,113
-	-	-	1,760	-	69	1,889
-	17	1,609	-	281	-	1,992
-	64	52,923	-	5,654	-	60,334
-	-	2,848	613	-	-	3,461
-	-	5,780	16	-	622	6,454
2,179	-	-	-	-	-	2,179
-	-	-	271	-	-	615
-	-	-	39	-	-	39
-	-	-	-	-	369	369
-	33	-	1,465	-	71	1,624
-	-	-	-	7,871	-	7,876
6,391	4,329	169,226	7,835	448,882	4,228	733,850
-	-	58,783	-	-	922	60,722
-	143	444,936	-	184,532	-	687,345
-	-	5,062	-	-	-	5,062
-	-	-	13,968	-	-	14,129
-	-	-	23,758	-	-	23,758
-	-	-	8,215	-	-	8,215
-	-	-	149,899	-	791	150,690
-	2,252	-	39,047	-	3,601	45,468
-	-	-	-	-	500	500
-	-	-	-	-	337	337
-	(737)	-	(109,211)	-	(3,268)	(113,674)
-	1,515	-	87,950	-	1,961	91,536
-	-	4,000	10,262	-	346	14,608
-	1,658	512,781	135,938	184,532	3,229	897,160
6,391	5,987	682,007	143,773	633,414	7,457	1,631,010
1,181	164	1,312	2,859	41	1,587	13,195
903	-	-	-	-	-	12,194
7	5	-	2	465	-	480
-	-	-	-	-	-	125
-	-	10,673	-	5,125	-	15,798
-	-	-	2,367	-	144	2,511
-	-	-	388	-	-	388
-	-	-	2,300	23,505	-	25,805
-	-	-	107	-	273	508
-	-	-	3,142	-	150	3,358
2,091	169	11,985	11,165	29,136	2,154	74,362
-	-	-	2,020	-	-	24,631
-	2,173	396,717	39,400	702,027	-	1,140,317
-	43	-	564	-	1,365	2,004
-	-	-	540	-	222	1,366
-	2,216	396,717	42,524	702,027	1,587	1,168,318
2,091	2,385	408,702	53,689	731,163	3,741	1,242,680
-	(660)	-	80,077	-	1,961	81,648
4,300	-	-	-	-	-	4,300
-	-	-	503	-	-	503
-	956	-	5,927	-	-	6,883
-	3,306	-	3,577	-	-	83,264
-	-	-	-	-	1,755	1,755
-	-	-	-	-	-	34,421
-	-	273,305	-	(97,749)	-	175,556
\$ 4,300	\$ 3,602	\$ 273,305	\$ 90,084	\$ (97,749)	\$ 3,716	\$ 388,330

Commonwealth of Pennsylvania
Combining Statement of Activities
Nonmajor Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2008
(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2007)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
Expenses.....	\$ 2,457	\$ 904	\$ 47,307	\$ 10,203	\$ 1,304
Program revenues:					
Charges for goods and services.....	1,407	-	968	10,848	1,304
Operating grants and contributions.....	1,276	350	53,974	101	-
Capital grants and contributions.....	-	-	-	-	-
Total program revenues.....	2,683	350	54,942	10,949	1,304
Net (expense) revenue.....	226	(554)	7,635	746	-
Change in net assets.....	226	(554)	7,635	746	-
Net assets, July 1, 2007.....	30,119	5,271	64,190	3,439	-
Net assets, June 30, 2008.....	\$ 30,345	\$ 4,717	\$ 71,825	\$ 4,185	\$ -

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Thaddeus Stevens College of Technology	Total
\$ 4,194	\$ 1,033	\$ 25,451	\$ 28,963	\$ 68,880	\$ 16,006	\$ 206,702
-	305	17,838	6,079	2,488	4,423	45,660
5,494	1,610	10,145	19,538	61,412	12,725	166,625
-	-	-	41,413	-	-	41,413
5,494	1,915	27,983	67,030	63,900	17,148	253,698
1,300	882	2,532	38,067	(4,980)	1,142	46,996
1,300	882	2,532	38,067	(4,980)	1,142	46,996
3,000	2,720	270,773	52,017	(92,769)	2,574	341,334
\$ 4,300	\$ 3,602	\$ 273,305	\$ 90,084	\$ (97,749)	\$ 3,716	\$ 388,330

- THIS PAGE INTENTIONALLY LEFT BLANK -

Statistical Section

-Pennsylvania Symbols-

“Capital of Pennsylvania”



The Capitol sits in the middle of a large complex of Commonwealth buildings and represents the seat of state power. Harrisburg has been the capital of Pennsylvania since 1812, by authority of an act of February 21, 1810. Philadelphia and then Lancaster were earlier capital cities. The present Capitol was dedicated in 1906, after an earlier building was destroyed by fire in 1897.

Information and photo courtesy of the Pennsylvania Department of General Services
(www.dgs.state.pa.us)

Statistical Section Table of Contents

Financial Trends

These tables illustrate how the Commonwealth's financial position has changed over time by providing information on the Commonwealth's net assets, change in net assets, fund balance and changes in fund balance.

Table 1-Net Assets by Component.....	193
Table 2-Changes in Net Assets	194
Table 3-Governmental Fund Type Fund Balances	196
Table 4-Revenues by Source and Expenditures by Function-All Governmental Fund Types	197

Revenue Capacity

These tables contain information on the factors that affect the Commonwealth's ability to generate its own-source revenues. The Commonwealth's largest source of revenues is taxes. Information for the three largest is contained within these tables. Personal income, sales and corporation taxes account for 81% of all general revenues for the June 30, 2008 fiscal year (as disclosed in the Statement of Activities).

Table 5-Personal Income Tax-Personal Income by Industry	198
Table 6-Personal Income Tax-Personal Income Tax Filers and Liability by Income Level	199
Table 7-Sales Tax-Estimated Sales by Industry Classification of the Vendor	200
Table 8-Sales Tax-Sales Tax Remittances by Major Industry Classification	201
Table 9-Corporate Tax-Corporate Net Income Tax.....	202
Table 10-Corporate Tax-Capital Stock/Foreign Franchise Tax.....	203

Debt Capacity

These tables contain information on the Commonwealth's debt burden as well as information about the Commonwealth's ability to issue additional debt.

Table 11-Outstanding Debt and Outstanding Debt Ratios	204
Table 12-Ratios of Net General Bonded Debt Outstanding.....	205
Table 13-Computation of Legal Debt Margin	206

Demographic and Economic Information

These tables contain information on the socioeconomic environment in which the Commonwealth operates.

Table 14-Employment by Nonfarm Related Industry	207
Table 15-Population and Per Capita Personal Income	208
Table 16-Employment Information.....	208

Operating Information

These tables provide information about the Commonwealth's operations and resources and assist in relating financial statement information to the Commonwealth's economic condition.

Table 17-Commonwealth Employees by Function and Agency.....	209
Table 18-Operating Indicators by Function and Agency.....	210
Table 19-Capital Asset Information by Function and Agency.....	212

Commonwealth of Pennsylvania
Financial Trends

Table 1
Net Assets by Component
For the Last Seven Fiscal Years As of June 30
(Accrual basis of accounting-amounts in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007	2008
GOVERNMENTAL ACTIVITIES							
Invested in capital assets, net of related debt.....	\$14,806,435	\$16,106,064	\$16,944,913	\$18,258,125	\$19,068,573	\$20,015,677	\$21,482,118
Restricted for:							
Smoking cessation and other health-related programs.....	N/A	N/A	N/A	1,215,291	1,320,703	1,454,502	1,410,932
Transportation.....	605,606	553,212	775,900	990,743	1,578,753	1,266,928	1,520,801
Capital projects.....	3,937	301,628	245,926	173,790	196,301	213,556	-
Debt service.....	-	32,685	61,029	83,885	8,118	20,474	27,458
Unemployment/worker's compensation.....	141,678	48,847	-	-	29,754	104,579	120,181
Elderly programs.....	1,434	111,659	90,713	92,531	32,327	10,808	38,264
Environmental and conservation programs.....	480,182	445,350	430,071	420,600	435,976	473,210	457,726
Economic stimulus.....	N/A	N/A	N/A	N/A	18,171	16,217	22,530
Gaming licensing/regulation.....	N/A	N/A	N/A	N/A	2,128	299,396	947,145
Correctional industries and procurement.....	N/A	N/A	N/A	N/A	133,934	30,348	46,541
Emergency support.....	N/A	N/A	N/A	N/A	56,543	60,917	58,063
Higher Education.....	N/A	N/A	N/A	N/A	N/A	N/A	7,023
Other purposes.....	384,027	1,003,117	1,366,072	303,409	82,770	87,077	88,580
Unrestricted (deficit).....	1,312,334	(603,472)	(228,981)	(739,160)	(372,089)	343,162	(648,689)
TOTAL GOVERNMENTAL ACTIVITIES NET ASSETS....	17,735,633	17,999,090	19,685,643	20,799,214	22,591,962	24,396,851	25,578,673
BUSINESS-TYPE ACTIVITIES							
Invested in capital assets, net of related debt.....	30,426	42,421	45,927	46,567	82,694	56,010	72,668
Restricted for:							
Smoking cessation and other health-related programs.....	N/A	N/A	N/A	-	4,814	2,413	1,942
Transportation.....	30,336	31,742	33,227	50,433	52,960	58,085	103,274
Unemployment/worker's compensation.....	2,836,069	1,960,499	1,506,877	1,808,170	2,397,720	2,547,726	2,378,092
Elderly programs.....	180,814	142,284	158,343	291,329	325,925	340,836	124,351
Economic stimulus.....	N/A	N/A	N/A	N/A	212,792	288,246	299,924
Emergency support.....	N/A	N/A	N/A	N/A	126,505	129,546	132,837
Other purposes.....	422,971	361,993	403,527	450,961	152,629	165,168	126,799
Unrestricted (deficit).....	(26,005)	(71,756)	(47,849)	(43,812)	-	-	(73,973)
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS.....	3,474,611	2,467,183	2,100,052	2,603,648	3,356,039	3,588,030	3,165,914
PRIMARY GOVERNMENT							
Invested in capital assets, net of related debt.....	14,836,861	16,148,485	16,990,840	18,304,692	19,151,267	20,071,687	21,554,786
Restricted for:							
Smoking cessation and other health-related programs.....	N/A	N/A	N/A	1,215,291	1,325,517	1,456,915	1,412,874
Transportation.....	635,942	584,954	809,127	1,041,176	1,631,713	1,325,013	1,624,075
Capital projects.....	3,937	301,628	245,926	173,790	196,301	213,556	-
Debt service.....	-	32,685	61,029	83,885	8,118	20,474	27,458
Unemployment/worker's compensation.....	2,977,747	2,009,346	1,506,877	1,808,170	2,427,474	2,652,305	2,498,273
Elderly programs.....	182,248	253,943	249,056	383,860	358,252	351,644	162,615
Environmental and conservation programs.....	480,182	445,350	430,071	420,600	435,976	473,210	457,726
Economic stimulus.....	N/A	N/A	N/A	N/A	230,963	304,463	322,454
Gaming licensing/regulation.....	N/A	N/A	N/A	N/A	2,128	299,396	947,145
Correctional industries and procurement.....	N/A	N/A	N/A	N/A	133,934	30,348	46,541
Emergency support.....	N/A	N/A	N/A	N/A	183,048	190,463	190,900
Higher Education.....	N/A	N/A	N/A	N/A	N/A	N/A	7,023
Other purposes.....	806,998	1,365,110	1,769,599	754,370	235,399	252,245	215,379
Unrestricted (deficit).....	1,286,329	(675,228)	(276,830)	(782,972)	(372,089)	343,162	(722,662)
TOTAL PRIMARY GOVERNMENT NET ASSETS.....	\$21,210,244	\$20,466,273	\$21,785,695	\$23,402,862	\$25,948,001	\$27,984,881	\$28,744,587

Source: Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.

Note: This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34. Also, since implementation additional restricted net asset categories have been created to provide a more refined description of the restrictions. These restrictions were not applied retroactively and are marked with N/A in the years prior to the creation of the new restricted net asset category. These new categories were created either for new funds or funds previously reported in the "Other purposes" category. The "Gaming licensing/regulation" category was created for a new fund, the Gaming Fund, in the 2006 fiscal year. The most significant fund previously reported in the "Other purposes" category that is now being reported in a new classification is the Tobacco Settlement Fund, a major governmental fund type, which beginning with the 2005 fiscal year is now being reported in the "Smoking cessation and other health-related programs" category. Other notable funds being reported in new categories are the Internal Service funds-reported in the "Correctional industries and procurement" category; Machinery and Equipment Loan Fund and Small Business First Fund (both Proprietary fund types)-reported in the "Economic Stimulus" category; the Volunteer Companies Loan Fund (a Proprietary fund type)-reported in the "Emergency support" category; and the Educational Assistance Program Fund (a Special Revenue fund type)-reported in the "Higher Education" category.

Commonwealth of Pennsylvania

Financial Trends

Table 2

Changes in Net Assets

For the Last Seven Fiscal Years Ended June 30

(Accrual basis of accounting—amounts in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007	2008
GOVERNMENTAL ACTIVITIES:							
Expenses:							
Direction and supportive services.....	\$ 1,262,359	\$ 1,024,071	\$ 2,034,883	\$ 2,229,850	\$ 2,162,552	\$ 1,208,409	\$ 1,479,962
Protection of persons and property	3,758,867	3,921,413	3,873,972	4,244,332	4,439,794	4,487,633	4,922,684
Public education.....	9,642,272	10,219,211	10,571,307	11,428,452	11,816,608	12,464,663	13,107,648
Health and human services.....	18,893,434	20,454,323	21,750,153	24,166,791	24,139,762	24,264,933	25,215,388
Economic development.....	1,416,557	1,455,272	1,340,015	1,314,636	1,409,506	1,738,172	1,720,992
Transportation.....	2,581,898	2,998,824	3,164,086	3,261,642	3,229,351	3,922,517	4,182,916
Recreation and cultural enrichment.....	481,948	435,864	394,273	448,585	520,330	569,510	571,009
Interest.....	344,482	370,284	341,455	296,267	337,142	344,557	371,249
Total expenses.....	38,381,817	40,879,262	43,470,144	47,390,555	48,055,045	49,000,394	51,571,848
Program revenues:							
Charges for sales and services:							
Direction and supportive services.....	393,856	347,910	1,097,730	1,377,293	991,541	143,290	143,933
Protection of persons and property	373,329	627,529	925,502	831,785	1,080,708	1,309,256	1,214,038
Public education.....	6,043	-	3,514	1,702	13,161	14,793	17,641
Health and human services.....	2,095,669	2,049,640	1,297,338	2,871,487	1,913,377	1,730,965	1,800,212
Economic development.....	145,119	142,914	1,011	11,028	16,373	12,277	11,379
Transportation.....	956,406	914,129	1,008,886	1,029,406	949,533	952,866	945,536
Recreation and cultural enrichment.....	188,829	143,221	138,750	153,641	166,750	162,168	162,013
Operating grants and contributions.....	13,122,608	14,574,283	16,556,717	16,773,012	16,532,924	17,229,000	17,936,693
Capital grants and contributions.....	125,502	136,140	30,473	14,944	55,761	23,495	4,610
Total program revenues.....	17,407,361	18,935,766	21,059,921	23,064,298	21,720,128	21,578,110	22,236,055
Total governmental activities net program revenues/(expenses).....	(20,974,456)	(21,943,496)	(22,410,223)	(24,326,257)	(26,334,917)	(27,422,284)	(29,335,793)
General revenues and other changes in net assets:							
General revenues:							
Taxes:							
Personal income.....	6,713,861	6,691,957	7,352,877	8,312,440	9,093,338	9,951,585	10,438,976
Sales and use.....	7,419,373	7,511,233	7,654,405	7,917,396	8,381,262	8,629,815	8,779,768
Corporation.....	3,160,714	3,418,599	4,004,112	4,400,995	5,074,730	4,985,031	5,157,589
Liquid fuels and motor carriers.....	1,696,418	1,666,795	1,723,816	1,863,223	2,033,227	2,072,442	2,024,045
Gaming.....	N/A	N/A	N/A	N/A	N/A	251,059	769,064
Inheritance.....	N/A	634,365	726,605	668,992	793,279	716,788	802,865
Cigarette.....	N/A	N/A	933,973	811,578	1,033,099	983,580	1,026,125
Real estate.....	N/A	N/A	N/A	N/A	646,870	583,991	500,786
Other.....	1,642,731	1,616,368	893,589	992,343	418,110	475,197	592,744
Total taxes.....	20,633,097	21,539,317	23,289,377	24,966,967	27,473,915	28,649,488	30,091,962
Investment income.....	15,394	115,829	199,151	131,629	188,750	320,342	128,722
Total general revenues.....	20,648,491	21,655,146	23,488,528	25,098,596	27,662,665	28,969,830	30,220,684
Special item—revenues from component unit.....	256,206	-	-	-	-	-	-
Transfers from business-type activities.....	481,022	551,807	422,786	341,232	465,000	257,343	296,931
Net general revenues, special items and transfers.....	21,385,719	22,206,953	23,911,314	25,439,828	28,127,665	29,227,173	30,517,615
Total governmental activities change in net assets.....	\$ 411,263	\$ 263,457	\$ 1,501,091	\$ 1,113,571	\$ 1,792,748	\$ 1,804,889	\$ 1,181,822

Commonwealth of Pennsylvania**Financial Trends**

Table 2

Changes in Net Assets

For the Last Seven Fiscal Years Ended June 30

(Accrual basis of accounting—amounts in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007	2008
BUSINESS-TYPE ACTIVITIES							
Expenses							
State lottery.....	\$ 1,682,675	\$ 1,827,306	\$ 2,051,646	\$ 2,298,417	\$ 2,704,265	\$ 3,100,523	\$ 3,157,593
State workers' insurance.....	174,929	225,483	435,429	449,880	412,104	553,512	616,256
Tuition payment.....	191,188	288,118	293,737	192,802	138,275	267,941	224,791
Unemployment compensation.....	2,819,878	3,470,257	2,563,318	1,774,676	1,998,613	2,074,382	2,289,977
Liquor control.....	907,261	954,763	1,024,365	1,088,875	1,178,434	1,277,871	1,318,503
Economic development and other.....	16,820	12,663	13,980	16,456	18,433	14,470	3,148
Total expenses.....	5,792,751	6,778,590	6,382,475	5,821,106	6,450,124	7,288,699	7,610,268
Program revenues							
Charges for sales and services:							
State lottery.....	1,955,820	2,103,644	2,349,644	2,644,407	3,047,978	3,076,013	3,100,962
State workers' insurance.....	149,688	180,664	266,551	355,883	427,970	374,088	384,301
Tuition payment.....	151,149	234,460	206,739	141,817	113,831	151,121	138,361
Unemployment compensation.....	1,862,530	1,532,213	1,628,215	1,961,085	2,373,163	2,172,900	2,061,780
Liquor control.....	975,300	1,025,813	1,121,853	1,183,667	1,272,101	1,364,524	1,428,638
Economic development and other.....	24,031	15,878	21,467	17,201	17,585	20,068	20,149
Operating grants and contributions.....	463,554	1,223,591	840,763	361,874	414,887	619,319	350,892
Capital grants and contributions.....	-	6,706	1,121	-	-	-	-
Total program revenues.....	5,582,072	6,322,969	6,436,353	6,665,934	7,667,515	7,778,033	7,485,083
Total business-type activities net program revenues/(expenses).....	(210,679)	(455,621)	53,878	844,828	1,217,391	489,334	(125,185)
Other changes in net assets							
Transfers to governmental activities.....	(481,022)	(551,807)	(422,786)	(341,232)	(465,000)	(257,343)	(296,931)
Total business-type activities change in net assets.....	(691,701)	(1,007,428)	(368,908)	503,596	752,391	231,991	(422,116)
Total primary government change in net assets.....	\$ (280,438)	\$ (743,971)	\$ 1,132,183	\$ 1,617,167	\$ 2,545,139	\$ 2,036,880	\$ 759,706

Source: Statement of Activities, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.

Note: This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34. With the original implementation, inheritance, cigarette and real estate taxes were reported within the "Other" taxes category. To provide a more refined description of the Commonwealth's taxes, separate captions were created in the Statement of Activities for these taxes in succeeding fiscal years. Beginning with the 2003 fiscal year, inheritance taxes were reported separately; in the 2004 fiscal year, cigarette taxes were reported separately; and in the 2006 fiscal year, real estate taxes were reported separately. These captions are marked with N/A in the fiscal years prior to when the particular tax was reported separate from the "Other" taxes category. During the 2007 fiscal year, the first licensed gaming facilities opened and the resulting taxes from their activities were reported in the Gaming Fund, a special revenue fund.

Commonwealth of Pennsylvania**Financial Trends**

Table 3

Governmental Fund Type Fund Balances**For the Last Ten Fiscal Years As of June 30**

(Modified accrual basis of accounting—amounts in thousands)

	1999	2000	2001	(Restated) 2002 (1)	2003	2004	2005	2006	2007	2008
GENERAL FUND										
Reserved for:										
Encumbrances.....	\$ 279,912	\$ 397,827	\$ 426,956	\$ 479,314	\$ 341,881	\$ 259,178	\$ 617,861	\$ 709,115	\$ 570,027	\$ 568,678
Advances.....	74,808	20,808	52,808	29,111	114,108	114,108	114,108	114,108	114,108	114,108
Loans receivable.....	-	-	-	-	9,470	6,283	4,496	10,953	11,113	8,358
Tax Stabilization/Budget Stabilization Reserve (2).....	944,031	1,104,954	1,093,213	-	-	-	70,303	171,362	538,764	745,949
Other.....	329,014	362,027	308,125	286,711	307,974	501,901	621,004	454,639	844,229	1,148,218
Unreserved:										
Designated for:										
Budget Stabilization Reserve Fund.....	-	-	-	300,000	-	70,303	-	-	-	-
Other.....	180,490	677,897	1,079,047	323,884	269,775	421,415	514,174	719,414	923,966	379,169
Undesignated.....	1,055,165	1,700,128	1,524,846	1,603,822	1,314,505	1,633,326	927,163	789,958	368,659	9,621
TOTAL GENERAL FUND.....	2,863,420	4,263,641	4,484,995	3,022,842	2,357,713	3,006,514	2,869,109	2,969,549	3,370,866	2,974,101
ALL OTHER GOVERNMENTAL FUNDS										
Reserved for:										
Encumbrances.....	916,662	1,233,014	1,220,710	1,336,227	1,168,535	1,444,875	1,454,129	1,630,382	1,927,151	2,057,615
Advances.....	3,000	3,000	3,000	3,000	3,000	223,000	210,000	3,000	3,000	3,000
Loans receivable.....	60,483	68,834	56,264	39,963	38,186	39,804	32,065	32,684	39,859	73,628
Other.....	31,754	38,020	38,050	407,029	445,411	560,284	817,668	857,253	1,329,707	940,263
Unreserved:										
Designated for:										
Capital projects.....	81,817	86,644	79,867	79,286	54,026	96,787	133,024	131,026	65,455	54,631
Debt service:										
Retirement of general obligation bonds.....	396,847	409,762	152,085	21,887	32,685	61,029	83,885	8,118	20,474	27,458
Highways.....	213,622	250,743	182,670	175,249	215,946	209,647	218,885	203,118	235,730	689,288
Other.....	275	264	264	12	-	-	4,355	4,528	11,268	9,341
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	983,723	992,985	970,427	1,791,400	1,703,534	1,520,236	1,631,980	2,412,047	1,971,829	2,630,277
Debt Service funds (deficit).....	-	(53)	(8)	(3,782)	-	-	-	-	-	-
Capital Projects funds (deficit).....	(399,809)	(710,378)	(668,091)	(494,795)	(398,644)	(368,295)	(473,110)	(601,823)	(449,622)	(629,686)
TOTAL ALL OTHER GOVERNMENTAL FUNDS.....	\$ 2,288,374	\$ 2,372,835	\$ 2,035,238	\$ 3,355,476	\$ 3,262,679	\$ 3,787,367	\$ 4,112,881	\$ 4,680,333	\$ 5,154,851	\$ 5,855,815

Source: The Commonwealth's Comprehensive Annual Financial Report, as presented for the applicable fiscal year. For fiscal years 1999-2001, the information can be found in the Combined Balance Sheet-All Fund Types, Account Groups and Discretely Presented Component Units statement. Beginning with the 2002 fiscal year, the information can be found in the Balance Sheet-Governmental Funds statement.

Notes:

(1)-Beginning with the 2002 fiscal year, the Commonwealth implemented GASB Statement 34. As a result, two funds (State Lottery Fund and Historical Preservation Fund) were reclassified from the Special Revenue governmental fund type classification to a Proprietary fund type classification. Two additional funds (Workmen's Compensation Security Trust Fund and Catastrophic Loss Trust Fund) were reclassified from an Expendable Trust fund type classification to a Special Revenue governmental fund type classification.

(2)-The Tax Stabilization Fund was abolished and its last year of existence was the 2001 fiscal year. In the 2002 fiscal year, the new Budget Stabilization Reserve Fund was created by Act 91 of 2002. The reservations for both funds are reported on the same line because they are considered to be the Commonwealth's Rainy Day Fund within the General Fund. Note A in the Notes to the Financial Statements provides additional details.

Commonwealth of Pennsylvania

Financial Trends

Table 4

Revenues by Source and Expenditures by Function-All Governmental Fund Types
For the Last Ten Fiscal Years Ended June 30

(Modified accrual basis of accounting-amounts in thousands)

	1999	2000	2001	(Restated) 2002 (1)	2003	2004	2005	2006	2007	2008
REVENUES BY SOURCE										
Taxes, net of refunds.....	\$ 20,105,276	\$ 20,956,743	\$ 21,232,196	\$ 20,636,762	\$ 21,469,170	\$ 23,237,117	\$ 24,973,125	\$ 27,117,823	\$ 28,548,280	\$ 29,909,880
Licenses and fees.....	1,019,256	1,143,789	1,172,372	1,246,232	1,350,016	1,475,948	1,568,659	1,611,868	1,954,788	1,913,154
Intergovernmental.....	10,563,455	11,093,738	12,086,372	13,259,463	14,575,716	16,379,096	16,585,336	16,347,975	16,891,212	17,911,839
Charges for sales and services.....	2,057,375	2,489,196	2,388,536	2,535,775	2,019,842	2,068,019	4,027,745	2,970,585	1,598,564	1,641,937
Investment income.....	258,525	396,499	307,202	29,615	249,791	402,132	322,199	425,356	769,820	166,522
Lottery receipts (2).....	1,659,305	1,695,371	1,788,333	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other (3).....	214,254	656,086	539,830	755,226	837,918	957,494	552,422	576,180	607,201	752,308
TOTAL REVENUES	35,877,446	38,431,422	39,514,841	38,463,073	40,502,453	44,519,806	48,029,486	49,049,787	50,369,865	52,295,640
EXPENDITURES BY FUNCTION										
Direction and supportive services	2,722,917	2,817,426	3,292,188	968,563	914,794	1,538,729	2,134,421	2,337,112	1,104,793	1,385,760
Protection of persons and property.....	2,785,269	2,933,612	3,044,074	3,876,449	3,882,843	3,886,666	3,892,572	4,410,969	4,621,119	4,861,363
Health and human services.....	15,320,410	16,486,542	17,483,315	18,990,802	20,510,849	21,689,392	24,118,288	24,103,077	24,293,011	25,141,836
Public education.....	7,842,732	8,283,144	8,677,284	8,814,273	10,198,076	10,529,504	11,400,985	11,731,884	12,439,920	13,076,308
Recreation and cultural enrichment.....	436,601	510,732	568,757	480,245	471,920	382,179	442,783	447,264	544,117	557,387
Economic development.....	469,005	539,068	745,143	1,245,292	1,507,584	1,334,071	1,310,093	1,413,995	1,736,388	1,721,634
Transportation.....	3,654,269	3,679,188	4,065,124	4,003,291	3,935,785	2,310,434	2,607,793	2,448,165	3,089,544	3,292,279
Capital outlay.....	582,863	586,801	655,248	694,219	407,080	2,008,141	1,805,913	2,082,644	2,121,632	2,273,290
Debt service:										
Principal retirement.....	443,675	479,350	477,001	479,395	998,396	455,890	478,112	492,355	521,773	555,337
Interest and fiscal charges.....	262,669	277,044	281,590	278,428	313,681	311,686	320,887	348,418	361,088	388,722
TOTAL EXPENDITURES	34,520,410	36,592,907	39,289,724	39,830,957	43,141,008	44,446,692	48,511,847	49,815,883	50,833,385	53,253,916
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES.....	1,357,036	1,838,515	225,117	(1,367,884)	(2,638,555)	73,114	(482,361)	(766,096)	(463,520)	(958,276)
OTHER FINANCING SOURCES/(USES)										
Bonds issued.....	856,839	590,731	663,919	1,042,813	1,324,167	625,247	401,816	914,000	1,008,104	913,119
Refunding bonds issued.....	-	-	-	376,854	837,991	459,223	1,468,439	-	250,557	194,471
Premium on bonds/refunding bonds issued.....	-	-	-	-	-	88,006	197,291	54,420	58,166	61,277
Discount on bonds issued.....	-	-	-	-	-	-	-	-	(157)	-
Transfers in.....	1,344,985	1,372,501	1,097,698	2,272,414	1,729,539	1,337,090	1,276,443	1,408,351	1,463,620	1,614,938
Transfers out.....	(1,292,832)	(1,320,181)	(1,056,533)	(1,791,392)	(1,177,733)	(914,304)	(1,035,211)	(943,351)	(1,188,779)	(1,318,226)
Transfers from component units (4).....	-	-	-	256,206	N/A	N/A	N/A	N/A	N/A	N/A
Transfers to component units (4).....	(781,636)	(833,976)	(877,609)	(1,079,197)	N/A	N/A	N/A	N/A	N/A	N/A
Payment to refunded bond escrow agent.....	-	-	-	(376,854)	(837,991)	(511,884)	(1,639,510)	-	(253,892)	(203,633)
Capital lease and installment purchase obligations.....	28,835	14,556	6,607	5,767	4,656	1,535	1,202	568	1,736	529
TOTAL OTHER FINANCING SOURCES/(USES).....	156,191	(176,369)	(165,918)	706,611	1,880,629	1,084,913	670,470	1,433,988	1,339,355	1,262,475
NET CHANGE IN FUND BALANCES.....	\$ 1,513,227	\$ 1,662,146	\$ 59,199	\$ (661,273)	\$ (757,926)	\$ 1,158,027	\$ 188,109	\$ 667,892	\$ 875,835	\$ 304,199
Debt Service as a Percentage of Noncapital Expenditures (5).....	2.08%	2.10%	1.96%	1.94%	3.07%	1.81%	1.71%	1.76%	1.81%	1.85%

Source: The Commonwealth's Comprehensive Annual Financial Report, as presented for the applicable fiscal year. For fiscal years 1999-2001, the information can be found in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance statement. Beginning with the 2002 fiscal year, the information can be found in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds statement.

Notes:

(1)-Beginning with the 2002 fiscal year, the Commonwealth implemented GASB Statement 34. As a result, two funds (State Lottery Fund and Historical Preservation Fund) were reclassified from the Special Revenue governmental fund type classification to a Proprietary fund type classification. Two additional funds (Workmen's Compensation Security Trust Fund and Catastrophic Loss Trust Fund) were reclassified from an Expendable Trust fund type classification to a Special Revenue governmental fund type classification.

(2)-The change in the State Lottery fund type classification was not retroactively applied, thus the lottery receipts are reported in the Governmental Fund Types through the 2001 fiscal year. Subsequent years after the reclassification are marked with an N/A.

(3)-Other revenues include immaterial amounts of lease rentals revenues and interest on notes and loans.

(4)-With the implementation of GASB Statement 34, the Commonwealth was required to begin reporting transfers from and to component units as ordinary revenues and expenditures. These changes were made to the Commonwealth's accounting system beginning with the 2003 fiscal year and were not retroactively applied. Subsequent fiscal years are marked with a N/A.

(5)-Ratio is calculated as Principal Retirement plus Interest and Fiscal Charges divided by Total Expenditures less Capital Outlay. There are no expenditures for capitalized assets contained within the functional expenditure categories.

Commonwealth of Pennsylvania
Revenue Capacity-Personal Income Tax

Table 5
 Personal Income by Industry
 For the Last Ten Calendar Years

(Amounts in millions)	1998	1999	2000	2001	2002	2003	2004(1)	2005(1)	2006(1)	2007
TOTAL PERSONAL INCOME BY INDUSTRY (2)										
Workplace Earnings:										
Farm Earnings.....	\$ 921	\$ 881	\$ 1,148	\$ 943	\$ 675	\$ 1,103	\$ 1,413	\$ 1,169	\$ 933	\$ 1,270
Nonfarm Earnings:										
Private earnings:										
Forestry, fishing/hunting, agriculture.....	416	445	509	553	466	450	422	451	459	468
Mining.....	1,475	1,463	1,406	1,703	1,517	1,657	1,932	2,131	2,480	2,737
Utilities.....	2,821	2,912	3,153	3,311	3,593	3,490	3,535	3,457	3,478	3,812
Construction.....	13,188	15,007	15,258	16,019	16,406	17,208	18,339	19,657	20,668	20,721
Manufacturing.....	43,083	44,471	47,143	45,299	45,458	44,253	45,447	45,914	48,242	48,706
Wholesale trade.....	11,557	12,128	12,936	13,273	13,680	14,497	15,696	16,800	17,806	18,970
Retail trade.....	17,014	17,874	18,213	19,174	19,391	20,067	20,116	20,822	21,178	21,649
Transportation and warehousing.....	8,706	9,265	9,874	10,485	10,606	10,688	11,808	12,169	12,563	13,227
Broadcasting/publishing/internet technology.....	7,362	8,125	8,798	9,007	8,511	8,925	9,092	9,466	9,993	10,429
Finance and insurance.....	16,063	17,144	18,678	18,792	19,708	20,518	22,499	22,925	24,156	25,183
Real estate and rental and leasing.....	5,313	4,869	5,872	5,504	5,652	6,222	6,543	6,551	6,491	6,409
Professional and technical services.....	21,172	23,602	25,184	25,716	25,726	26,226	28,439	30,734	33,070	35,605
Management of companies and enterprises.....	4,168	4,540	4,205	4,726	5,144	6,629	7,845	9,055	9,948	12,251
Administrative services.....	7,601	8,080	8,498	8,514	8,864	8,788	9,514	9,911	10,386	11,269
Educational services.....	5,622	5,897	6,342	6,837	7,332	7,721	8,142	8,548	8,954	9,411
Health care and social assistance.....	27,991	29,109	30,410	31,467	33,702	35,461	38,358	40,171	42,528	45,066
Arts, entertainment, and recreation.....	1,987	2,130	2,359	2,330	2,473	2,663	2,745	2,835	3,008	3,178
Accommodation and food services.....	5,310	5,576	5,873	6,129	6,470	6,693	6,999	7,294	7,630	8,168
Other services, except public administration.....	7,580	7,846	8,285	8,242	8,889	9,160	9,499	9,969	10,157	10,640
Total private earnings.....	208,429	220,483	232,996	237,081	243,588	251,316	266,970	278,860	293,195	307,899
Government:										
Federal, civilian.....	6,842	7,005	7,460	7,633	7,971	8,196	8,809	9,164	9,548	9,854
Military.....	830	863	882	992	1,198	1,623	1,697	1,881	1,845	1,802
State government.....	6,659	6,833	7,089	7,422	7,900	8,430	8,556	8,705	9,006	9,554
Local government.....	18,156	17,928	18,593	19,327	20,429	21,464	22,649	23,371	24,020	24,732
Total government earnings.....	32,487	32,629	34,024	35,374	37,498	39,713	41,711	43,121	44,419	45,942
Total nonfarm earnings.....	240,916	253,112	267,020	272,455	281,086	291,029	308,681	321,981	337,614	353,841
Total workplace earnings.....	241,837	253,993	268,168	273,398	281,761	292,132	310,094	323,150	338,547	355,111
Other earnings/deductions (3).....	88,324	88,619	96,669	98,941	100,491	101,776	103,761	106,356	116,971	126,530
Total personal income.....	\$ 330,161	\$ 342,612	\$ 364,837	\$ 372,339	\$ 382,252	\$ 393,908	\$ 413,855	\$ 429,506	\$ 455,518	\$ 481,641
Total personal income subject to the direct personal income tax rate (4)(5).....	\$ 215,027	\$ 224,591	\$ 237,070	\$ 230,926	\$ 229,685	\$ 237,961	250,921	266,800	N/A	N/A
Direct personal income tax rate.....	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.07%	3.07%	3.07%	3.07%

Sources:

Personal income by industry are provided by the Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce (<http://www.bea.gov/bea/regional/spi/default.cfm>) through estimates released September 2008.
 Total personal income subject to the direct tax rate was obtained from the Pennsylvania Department of Revenue. The information for the 2005 calendar year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for June 30, 2007. The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for June 2007. Both of these publications were obtained from the Pennsylvania Department of Revenue's website at: <http://www.revenue.state.pa.us/revenue/cwp/browse.asp?a=246&revenueNav=1>.

Notes:

- (1)-Calendar years 2004-2006 differ from the totals shown in the Commonwealth's Comprehensive Annual Financial Report for June 30, 2007. The amounts shown in the prior year were based on estimates released by the Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce in September 2007. These estimates have subsequently been revised (as provided in the September 2008 release).
- (2)-Personal income by industry are reported under the North American Industry Classification System (N.A.I.C.S. Group).
- (3)-Other earnings/deductions include dividends, interest and miscellaneous employee/employer contributions/deductions.
- (4)-Total personal income subject to the direct personal income tax rate consists of taxable compensation, interest, dividends, net profits and other income, prior to the application of various tax credits. This amount is self-assessed by the taxpayer on their tax returns for the tax year. Due to the complexity and length of the tax return filing and review process, the total compilation is not yet available for release by the Pennsylvania Department of Revenue for the 2006 and 2007 tax years.
- (5)-This information is presented by tax year, rather than by calendar year, as the personal income by industry is presented. An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (i.e. March 31st). The information presented is based on those returns of the filers whose tax year ended during the the applicable calendar year.

Commonwealth of Pennsylvania
Revenue Capacity-Personal Income Tax

Table 6

Personal Income Tax Filers and Liability by Income Level
1996 and 2005 Tax Years

Liability amounts in thousands									
1996 Tax Year (1)(2)(3)					2005 Tax Year (1)(2)(3)				
Taxable Income Level	Number of Filers	Percentage of Total (5)	Personal Income Tax Liability(4)	Percentage of Total	Taxable Income Level	Number of Filers	Percentage of Total (5)	Personal Income Tax Liability(4)	Percentage of Total
\$0	61,044	1.09%	\$ -	0.00%	\$0	86,656	1.51%	\$ -	0.00%
\$1-999	438,327	7.85%	5,363	0.10%	\$1-999	387,078	6.75%	4,743	0.06%
\$1,000-2,999	527,698	9.44%	28,541	0.55%	\$1,000-2,999	417,678	7.29%	24,851	0.30%
\$3,000-4,999	386,471	6.92%	42,854	0.82%	\$3,000-4,999	317,601	5.54%	38,608	0.47%
\$5,000-6,999	313,185	5.61%	52,237	1.00%	\$5,000-6,999	256,879	4.48%	47,013	0.57%
\$7,000-8,999	235,545	4.22%	52,577	1.01%	\$7,000-8,999	212,560	3.71%	52,012	0.64%
\$9,000-10,999	199,732	3.57%	55,748	1.07%	\$9,000-10,999	183,744	3.21%	56,309	0.69%
\$11,000-12,999	181,285	3.24%	60,867	1.17%	\$11,000-12,999	170,097	2.97%	62,599	0.76%
\$13,000-14,999	170,317	3.05%	66,728	1.28%	\$13,000-14,999	156,490	2.73%	67,202	0.82%
\$15,000-16,999	163,798	2.93%	73,324	1.41%	\$15,000-16,999	151,007	2.64%	74,138	0.91%
\$17,000-18,999	156,553	2.80%	78,876	1.51%	\$17,000-18,999	146,414	2.56%	80,870	0.99%
\$19,000-21,999	222,595	3.98%	127,651	2.45%	\$19,000-21,999	212,701	3.71%	133,809	1.63%
\$22,000-24,999	204,568	3.66%	134,484	2.58%	\$22,000-24,999	202,996	3.54%	146,365	1.79%
\$25,000-29,999	307,890	5.51%	236,574	4.54%	\$25,000-29,999	311,760	5.44%	262,636	3.21%
\$30,000-34,999	270,533	4.84%	245,757	4.71%	\$30,000-34,999	274,171	4.78%	273,085	3.33%
\$35,000-39,999	242,360	4.34%	254,171	4.87%	\$35,000-39,999	239,484	4.18%	275,275	3.36%
\$40,000-49,999	403,258	7.22%	505,629	9.70%	\$40,000-49,999	397,940	6.94%	547,351	6.68%
\$50,000-74,999	606,922	10.86%	1,032,269	19.80%	\$50,000-74,999	686,211	11.97%	1,293,235	15.79%
\$75,000-99,999	240,992	4.31%	577,381	11.07%	\$75,000-99,999	384,602	6.71%	1,017,531	12.42%
\$100,000-149,999	146,951	2.63%	489,524	9.39%	\$100,000-149,999	307,349	5.36%	1,131,721	13.82%
\$150,000 or more	107,271	1.92%	1,093,484	20.97%	\$150,000 or more	227,051	3.96%	2,601,394	31.76%
Total (5)	<u>5,587,295</u>	100.00%	<u>\$ 5,214,038</u>	100.00%	Total	<u>5,730,469</u>	100.00%	<u>\$ 8,190,747</u>	100.00%

Sources:

For the 1996 tax year, all of the information was provided directly by the Pennsylvania Department of Revenue. For the 2005 tax year, the number of filers per taxable income level and the personal income subject to the direct personal income tax rate per income level (used in the Personal Income Tax Liability estimation) were obtained from the Statistical Supplement for the Pennsylvania Tax Compendium for June 30, 2007. The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for June 2007. Both of these publications were obtained from the Pennsylvania Department of Revenue website (<http://www.revenue.state.pa.us/revenue/cwp/browse.asp?a=246&revenueNav=|>).

Notes:

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest personal income tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's personal income tax revenue.
- (2)-An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (i.e. March 31st). This table presents information based on all filers whose tax year ended during the the 1996 or 2005 calendar years.
- (3)-Also, due to the complexity and length of the tax return filing and review process, the total compilation of personal income subject to the direct tax rate per income level was not yet available for release by the Pennsylvania Department of Revenue for the 2006 and 2007 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 1996 and 2005 tax years are presented as an alternative comparison.
- (4)-The estimated total personal income tax liability is calculated by multiplying the total personal income (as self-assessed by the individual tax filer) for the income level by the tax rate applicable during the tax year. The estimated liability is presented before any applicable tax credits were applied. For the 1996 tax year, the direct tax rate in effect was 2.80% for all income levels. Beginning with the 2004 tax year, the rate increased to 3.07%. This rate has been in effect for all subsequent tax years.
- (5)-Totals may not foot due to rounding.

Commonwealth of Pennsylvania**Revenue Capacity-Sales Tax**

Table 7

Estimated Taxable Sales by Industry Classification of the Vendor

For the Last Ten Fiscal Years Ended June 30

(Amounts in thousands)

	By S.I.C. Group (2)					By N.A.I.C.S. Group (2)				
	1998	1999	2000	2001	2002 (3)	2003	2004	2005	2006	2007(4)
Estimated Taxable Sales by Industry (1)										
Manufacturing.....	\$ 6,060,783	\$ 6,698,400	\$ 6,812,867	\$ 6,241,417	\$ 5,712,633	\$ 6,222,633	\$ 6,386,100	\$ 6,858,033	\$ 7,107,483	\$ 7,083,150
Public utilities.....	8,521,333	9,287,767	9,736,283	3,991,083	3,920,667	3,981,383	4,229,717	4,473,817	4,667,117	4,816,533
Wholesale trade.....	3,743,100	3,868,450	4,037,633	10,142,600	9,687,583	7,625,950	7,987,583	9,112,350	11,407,750	12,320,033
Building materials.....	5,948,183	6,298,083	6,741,133	6,654,533	6,969,217	7,216,967	8,209,967	8,719,850	9,607,267	9,263,467
General merchandise.....	7,472,933	7,961,050	8,262,033	9,039,983	16,724,483	17,595,700	18,383,833	18,243,083	18,766,300	19,275,267
Food and beverage stores.....	12,059,150	12,950,617	13,337,550	12,875,267	5,353,500	5,602,267	5,770,967	5,764,533	5,859,017	6,090,033
Automotive dealers.....	2,860,067	3,211,517	3,418,567	4,994,600	3,163,400	3,329,383	3,487,217	3,691,150	3,761,500	3,865,533
Furniture and appliances.....	3,568,050	3,864,200	4,021,383	2,544,383	5,231,483	5,553,117	5,844,450	6,338,250	6,148,383	6,334,000
Other retail stores.....	13,919,900	14,950,433	15,571,467	13,929,117	5,054,200	5,022,117	5,212,517	5,376,183	5,529,683	5,802,417
Agriculture and mining.....	16,223,233	17,909,917	18,881,667	22,357,250	509,467	484,717	559,400	644,983	717,950	726,367
Construction.....	N/A	N/A	N/A	N/A	2,076,850	2,171,750	2,342,833	2,742,150	3,010,383	3,077,033
Service.....	N/A	N/A	N/A	N/A	34,221,217	35,405,917	35,164,650	37,378,583	39,336,950	41,230,817
Transportation, delivery, and warehousing...	N/A	N/A	N/A	N/A	272,833	275,150	312,250	330,783	420,617	363,450
Other.....	2,802,067	3,109,783	3,160,300	6,484,767	N/A	N/A	N/A	N/A	N/A	N/A
Government.....	69,567	105,850	105,650	298,483	264,517	280,250	278,833	296,717	294,600	289,767
Unclassified.....	3,542,817	3,448,283	4,481,200	1,457,483	1,911,367	2,538,850	2,228,010	1,472,017	1,442,950	1,532,250
Motor vehicle.....	14,861,183	15,490,150	17,495,383	18,000,200	19,362,581	20,764,773	21,144,925	20,506,470	19,484,594	19,481,964
Liquor sales.....	883,900	941,283	1,005,367	1,051,300	1,105,526	1,254,926	1,265,798	1,383,587	1,341,449	1,627,333
Total sales tax estimated base (5).....	\$ 102,536,267	\$ 110,095,783	\$ 117,068,483	\$ 120,062,467	\$ 121,541,524	\$ 125,325,849	\$ 128,809,049	\$ 133,332,540	\$ 138,903,993	\$ 143,179,414
Total direct sales tax rate.....	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Sources:

Sales tax remittances by industry and total direct sales tax rate (both used in the calculation of estimated taxable sales by industry) are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2007 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for June 30, 2007. The total direct sales tax rate was obtained from the Pennsylvania Tax Compendium for June 2007. Both of these publications were obtained from the Pennsylvania Department of Revenue's website at <http://www.revenue.state.pa.us/revenue/cwp/browse.asp?a=246&revenueNav=|>.

Notes:

- (1)-Estimated taxable sales are calculated based on sales tax remittances (made by vendors with their tax returns processed during the fiscal year) divided by the direct sales tax rate of 6%.
- (2)-Estimated taxable sales are organized by major industrial activity of the vendor and do not represent sales by product type. Fiscal years 1998 and 1999 are presented by Standard Industrial Classification (S.I.C. Group). Beginning with the 2000 fiscal year, the Commonwealth began reporting under the North American Industry Classification System (N.A.I.C.S. Group). The two classifications are similar, but not 100% comparable.
- (3)-Beginning with the 2002 fiscal year, the Pennsylvania Department of Revenue reclassified various subcategories within major industrial activity into either a different major industrial activity or a new major industrial activity. New major industrial activity are "Construction", "Service", and "Transportation, delivery, and warehousing". The "Other" category was eliminated. This reclassification had the most effect on the "General merchandise", "Food and beverage stores", "Other retail stores", and "Agriculture and mining" major industrial activity categories.
- (4)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2008 fiscal year. Therefore, fiscal years 1998 through 2007 are presented as an alternative comparison.
- (5)-Totals may not foot due to rounding.

Commonwealth of Pennsylvania

Revenue Capacity-Sales Tax

Table 8

Sales Tax Remittances by Major Industry Classification

Fiscal Years Ended June 30, 1998 and June 30, 2007

(Amounts in thousands)

June 30, 1998 (1)(2)			June 30, 2007 (1)(2)		
Industry (S.I.C. Group)(4)	Sales(3) Tax Liability	Percentage of Total	Industry (N.A.I.C.S. Group)(4)	Sales(3) Tax Liability	Percentage of Total
Manufacturing.....	\$ 363,647	5.91%	Manufacturing.....	\$ 424,989	4.95%
Public utilities.....	511,280	8.31%	Public utilities.....	288,992	3.36%
Wholesale trade.....	224,586	3.65%	Wholesale trade.....	739,202	8.60%
Building materials.....	356,891	5.80%	Building materials.....	555,808	6.47%
General merchandise.....	448,376	7.29%	General merchandise.....	1,156,516	13.46%
Food and beverage stores.....	723,549	11.76%	Food and beverage stores.....	365,402	4.25%
Automotive dealers.....	171,604	2.79%	Automotive dealers.....	231,932	2.70%
Furniture and appliances.....	214,083	3.48%	Furniture and appliances.....	380,040	4.42%
Other retail stores.....	835,194	13.58%	Other retail stores.....	348,145	4.05%
Agriculture and mining.....	973,394	15.82%	Agriculture and mining.....	43,582	0.51%
Construction.....	N/A	N/A	Construction.....	184,622	2.15%
Service.....	N/A	N/A	Service.....	2,473,849	28.80%
Transportation, delivery, and warehousing.	N/A	N/A	Transportation, delivery, and warehousing.	21,807	0.25%
Other.....	168,124	2.73%	Other.....	N/A	N/A
Government.....	4,174	0.07%	Government.....	17,386	0.20%
Unclassified.....	212,569	3.46%	Unclassified.....	91,935	1.07%
Motor vehicle.....	891,671	14.49%	Motor vehicle.....	1,168,918	13.61%
Liquor sales.....	53,034	0.86%	Liquor sales.....	97,640	1.14%
Total (5).....	<u>\$ 6,152,176</u>	100.00%	Total (5).....	<u>\$ 8,590,765</u>	100.00%
Sales Tax Licenses (6).....	311,716		Sales Tax Licenses (6).....	237,467	

Sources:

Sales tax remittances by industry and the number of sales tax licenses are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2007 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for June 30, 2007. This publication was obtained from the Pennsylvania Department of Revenue's website at <http://www.revenue.state.pa.us/revenue/cwp/browse.asp?a=246&revenueNav=1>.

Notes:

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest sales tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's sales tax revenue.
- (2)-Also, due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2008 fiscal year. Therefore, fiscal years 1998 and 2007 are presented as an alternative comparison.
- (3)-Sales tax liability is based on sales tax remittances made with tax returns processed during the fiscal year. The direct sales tax rate applicable to both years is 6%.
- (4)-Sales tax remittances are organized by major industrial activity of the vendor and does not represent sales by product type. The 1998 fiscal year is presented using the Standard Industrial Classification (S.I.C. Group), and the 2007 fiscal year is presented using the North American Industry Classification System (N.A.I.C.S. Group). The two classifications are similar, but not 100% comparable.
- (5)-Totals may not foot due to rounding.
- (6)-The Commonwealth does not maintain a list of sales tax filers by either the S.I.C. or N.A.I.C.S. standard industry grouping, and as noted in Note (1), can not disclose the names of the largest filers. Therefore, the number of sales tax licenses are presented to indicate the potential number of filers during the applicable fiscal year.

Commonwealth of Pennsylvania Revenue Capacity-Corporate Tax

Table 9

Corporate Net Income Tax
For the Last Ten Tax Years

	1996	1997	1998	1999	2000	2001	2002	2003 (6)	2004 (6)	2005 (6)
ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)										
Corporate Tax Report Compilation (amounts in thousands)....	\$ 16,440,187	\$ 14,407,934	\$ 15,667,338	\$ 15,304,130	\$ 14,164,465	\$ 12,367,911	\$ 13,280,711	\$ 13,446,684	\$ 17,648,755	\$ 10,499,839
NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)										
\$0.....	92,518	89,790	83,935	89,482	98,121	96,637	102,333	97,391	92,694	84,657
\$1-300.....	11,161	11,502	13,125	12,364	11,746	11,128	10,832	10,625	9,849	8,780
\$301-500.....	3,019	3,148	3,529	3,319	3,038	2,900	2,875	2,694	2,610	2,377
\$501-1,000.....	5,464	5,677	6,410	6,297	5,808	4,768	4,345	4,279	4,058	3,595
\$1,001-5,000.....	12,235	12,813	14,080	13,136	12,354	11,060	10,665	10,173	10,214	9,341
\$5,001-10,000.....	4,017	4,421	4,807	4,532	4,058	3,741	3,456	3,301	3,546	3,248
\$10,001-25,000.....	3,211	3,486	3,646	3,485	3,116	2,751	2,760	2,695	2,829	2,709
\$25,001-50,000.....	1,538	1,650	1,780	1,653	1,480	1,413	1,319	1,384	1,485	1,382
\$50,001-100,000.....	1,124	1,135	1,238	1,172	1,053	903	945	943	1,071	1,086
\$100,001-250,000.....	890	954	990	916	880	756	763	797	950	897
\$250,001-500,000.....	391	413	398	370	332	313	309	395	429	426
\$500,001-1,000,000.....	186	206	209	195	201	162	178	177	270	259
>\$1,000,000.....	177	184	190	191	201	184	192	220	264	276
Total corporate net income tax filers (4)(5).....	135,931	135,379	134,337	137,112	142,388	136,716	140,972	135,074	130,269	119,033
Total direct corporate net income tax rate.....	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%

Sources:

Information provided by the Pennsylvania Department of Revenue. The number of filers by corporate net income tax liability range for the 2003-2005 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for June 30, 2007. The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for June 2007. Both of these publications were obtained from the Pennsylvania Department of Revenue's website at: <http://www.revenue.state.pa.us/revenue/cwp/browse.asp?a=246&revenueNav=|>.

Notes:

- (1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). Recent legislation will gradually eliminate the capital stock tax so that the last year for which a tax will apply will be the 2010 tax year. This table presents the positive corporate net income tax base, as well as the number of filers associated with this tax by liability range. It also presents the statutory corporate net income tax rate.
- (2)-The CNIT is based on separate company Federal taxable income and includes a number of additions to/subtractions from that base. This table shows the compilation of all reported taxable income (Federal income adjusted to the PA base and then apportioned). Many corporations report negative federal taxable income. In addition, the net operating loss deductions that Pennsylvania allows reduce otherwise profitable corporations' incomes below \$0.
- (3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest corporate net income tax filers. Therefore, the schedule of the number of filers by corporate net income tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's corporate net income tax revenue. Those filers that report negative state taxable income are reported in the tax liability range of \$0, which accounts for the large number of filers within that range.
- (4)-Also, due to the complexity and length of the tax return filing and review process, the total compilation of corporate net income subject to the direct corporate tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2006 and 2007 tax years. Therefore, tax years 1996 through 2005 are presented as an alternative comparison.
- (5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (i.e. March 31st). This table presents information based on all filers whose tax year ended during the associated calendar years.
- (6)-For tax years 1996 through 2003, the amounts presented are actual. The amounts presented for the 2003 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2007 fiscal year, since that was an estimate. For the 2004 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2007 CAFR. And for the 2005 tax year, the amounts presented are an estimate.

Commonwealth of Pennsylvania
Revenue Capacity-Corporate Tax
Table 10
Capital Stock/Foreign Franchise Tax
For the Last Ten Tax Years

	1996	1997	1998	1999	2000	2001	2002	2003 (6)	2004 (6)	2005 (6)
CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)										
Apportioned Capital Stock Value Compilation (expressed in thousands).	\$ 79,854,213	\$ 84,640,644	\$ 98,094,135	\$108,450,000	\$123,400,000	\$128,540,000	\$137,650,000	\$147,450,000	\$157,310,000	\$137,110,000
NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)										
\$0-300.....	159,124	166,014	177,957	187,654	199,147	212,381	224,961	237,922	244,801	246,851
\$301-500.....	6,951	6,593	7,166	5,815	6,294	7,234	7,282	7,482	7,876	8,494
\$501-1,000.....	10,089	9,605	10,262	11,494	12,337	12,523	12,580	12,911	13,837	14,545
\$1,001-5,000.....	22,789	22,606	24,645	25,983	26,701	26,440	28,484	29,532	30,463	29,660
\$5,001-10,000.....	6,635	6,936	7,506	7,804	7,152	6,883	7,139	7,440	7,496	7,186
\$10,001-25,000.....	5,325	5,641	6,017	6,190	5,783	5,219	5,348	5,603	5,828	5,408
\$25,001-50,000.....	2,184	2,426	2,506	2,601	2,369	2,112	2,171	2,244	2,415	2,166
\$50,001-100,000.....	1,199	1,300	1,416	1,353	1,222	1,103	1,140	1,205	1,299	1,202
\$100,001-250,000.....	721	851	902	897	814	686	711	793	836	775
\$250,001-500,000.....	253	282	287	303	275	253	274	263	313	260
\$500,001-1,000,000.....	106	127	145	140	114	100	112	147	147	131
>\$1,000,000.....	95	110	104	109	117	103	97	98	111	82
Total capital stock and franchise tax filers (4)(5).....	215,471	222,491	238,913	250,343	262,325	275,037	290,299	305,640	315,422	316,760
Total direct capital stock and franchise tax rate.....	12.75 mills	12.75 mills	11.99 mills	10.99 mills	8.99 mills	7.49 mills	7.24 mills	7.24 mills	6.99 mills	5.99 mills

Sources:

Information provided by the Pennsylvania Department of Revenue. The number of filers by capital stock/foreign franchise tax liability range for the 2003-2005 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium for June 30, 2007. The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for June 2007. Both of these publications were obtained from the Pennsylvania Department of Revenue's website at: <http://www.revenue.state.pa.us/revenue/cwp/browse.asp?a=246&revenueNav=1>.

Notes:

- (1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). Recent legislation will gradually eliminate the capital stock tax so that the last year for which a tax will apply will be the 2010 tax year. This table presents the capital stock/foreign franchise apportioned tax base, as well as the number of filers associated with this tax by filing class. It also presents the statutory capital stock/foreign franchise tax rate.
- (2)-The CSFT is based on a fixed formula involving net worth and average book income. This schedule shows the compilation of all reported taxable capital stock value, as reported by corporate taxpayers required to file a tax return with the Commonwealth.
- (3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest capital stock/foreign franchise tax filers. Therefore, the schedule of the number of filers by capital stock/foreign franchise tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's capital stock/foreign franchise tax revenue. All corporate filers were required to pay a statutory minimum tax of \$300 through 1998 and \$200 in 1999, which accounts for the large number of filers within the range of \$0-\$300. This minimum does not apply to tax years 2000 and after.
- (4)-Also, due to the complexity and length of the tax return filing and review process, the total compilation of all reported taxable capital stock value subject to the statutory capital stock/foreign franchise tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2006 and 2007 tax years. Therefore, tax years 1996 through 2005 are presented as an alternative comparison.
- (5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (i.e. March 31st). This table presents information based on all filers whose tax year ended during the the associated calendar years.
- (6)-For tax years 1996 through 2003, the amounts presented are actual. The amounts presented for the 2003 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2007 fiscal year, since that was an estimate. For the 2004 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2007 CAFR. And for the 2005 tax year, the amounts presented are an estimate.

Commonwealth of Pennsylvania**Debt Capacity**

Table 11

Outstanding Debt and Outstanding Debt Ratios
For the Last Seven Fiscal Years Ended June 30

(Expressed in Thousands, Except Debt per Capita)

PRIMARY GOVERNMENT (1)(2)(3)	(Restated) 2002	2003	2004	2005	2006	2007	2008
Governmental activities:							
General obligation bonds.....	\$ 6,134,761	\$ 7,030,618	\$ 7,225,165	\$ 7,150,667	\$ 7,657,674	\$ 8,245,673	\$ 8,632,609
Capital leases/installment purchase obligations.....	629,437	62,131	53,951	47,276	42,059	40,649	37,646
Other financing obligations.....	-	-	100,000	90,000	82,500	76,500	70,500
Total governmental	6,764,198	7,092,749	7,379,116	7,287,943	7,782,233	8,362,822	8,740,755
Business-type activities:							
Capital leases/installment purchase obligations.....	-	-	-	-	28,259	17,375	5,939
TOTAL PRIMARY GOVERNMENT.....	\$ 6,764,198	\$ 7,092,749	\$ 7,379,116	\$ 7,287,943	\$ 7,810,492	\$ 8,380,197	\$ 8,746,694
Debt as a Percentage of Personal Income (4)(5)...	1.82%	1.86%	1.87%	1.76%	1.82%	1.84%	1.82%
Amount of Debt per Capita (4)(5).....	\$ 550	\$ 576	\$ 599	\$ 590	\$ 632	\$ 676	\$ 704

Source: Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.**Notes:**

(1)-This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34.

(2)-Each caption includes the reported current and noncurrent amounts of the outstanding debt.

(3)-Details on the Commonwealth's total outstanding debt for June 30, 2008 can be found in Note K.

(4)-See Table 15 for summarized totals for personal income and population data that were used in the calculations of these ratios. Personal income detail is presented in Table 5. As detailed in Table 5 or 15 (as appropriate), the personal income and population data have changed in several calendar years from what was presented in those tables in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2007 fiscal year. As a result, the calculated ratios based on the data from those calendar years may differ from what was presented in this table in the June 30, 2007 CAFR.

(5)-Debt ratios use total outstanding debt which is presented by fiscal year ended June 30, while the personal income and population data used in the calculations are presented by calendar year.

Commonwealth of Pennsylvania
Debt Capacity

Table 12

Ratios of Net General Bonded Debt Outstanding
For the Last Seven Fiscal Years Ended June 30

(Amounts in thousands)

(1) Fiscal Year	(2) General Obligation Bonds	(3) Less: Amounts Restricted to Paying Principal	Total Net General Bonded Debt Outstanding	(4) Percentage of Actual Tax Revenues	(5) Per Capita
2002	\$ 6,134,761	\$ -	\$ 6,134,761	29.73%	\$ 499
2003	7,030,618	(32,685)	6,997,933	32.49%	568
2004	7,225,165	(61,029)	7,164,136	30.76%	580
2005	7,150,667	(83,885)	7,066,782	28.30%	571
2006	7,657,674	(8,118)	7,649,556	27.84%	617
2007	8,245,673	(20,474)	8,225,199	28.71%	663
2008	8,632,609	(27,458)	8,605,151	28.60%	692

Sources:

Information was obtained from the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year. General obligation bonds can be found in the Statement of Net Assets, and the tax revenues used in the percentage of actual tax revenues can be found in the Statement of Activities.

Notes:

(1)-This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34.

(2)-General obligation bonds include the reported current and noncurrent amounts.

(3)-Amounts restricted to paying principal equal the amount restricted for debt service in the Statement of Net Assets.

(4)-The Commonwealth's general obligation bonds are expected to be repaid with general tax revenue. Therefore, the total taxes shown in the Governmental Activities section of the Statement of Activities is used in this calculation.

(5)-Total net general bonded debt outstanding used in the per capita calculation is presented as of the fiscal year. The population data used in the calculation is shown in Table 15, and is as of July 1 of the applicable fiscal year. As detailed in Table 15, the population data has changed in several calendar years from what was presented in Table 15 in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2007 fiscal year. As a result, the per capita calculation based on the data from those calendar years may differ from what was presented in this table in the June 30, 2007 CAFR.

Commonwealth of Pennsylvania

Debt Capacity

Table 13

Computation of Legal Debt Margin

As of August 31 for the Last Ten Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 21,241,970,890	\$ 22,097,372,526	\$ 23,008,382,095	\$ 23,661,031,603	\$ 24,285,747,191	\$ 25,091,013,830	\$ 26,141,233,164	\$ 27,536,515,720	\$ 29,300,406,649	\$ 31,088,316,012
Constitutional factor..... x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75
Constitutional debt limit for debt incurred without the approval of the electors (A)...	37,173,449,058	38,670,401,921	40,264,668,666	41,406,805,305	42,500,057,585	43,909,274,203	45,747,158,037	48,188,902,510	51,275,711,636	54,404,553,021
Less outstanding net debt (non-electorate approved).....	3,882,412,712	4,106,897,637	4,554,304,562	5,257,508,994	6,021,247,141	6,230,365,064	6,146,947,312	6,399,655,454	6,839,080,189	7,068,178,522
Legal debt margin (B).....	\$ 33,291,036,346	\$ 34,563,504,284	\$ 35,710,364,104	\$ 36,149,296,311	\$ 36,478,810,444	\$ 37,678,909,139	\$ 39,600,210,725	\$ 41,789,247,056	\$ 44,436,631,447	\$ 47,336,374,499
Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....	10.44%	10.62%	11.31%	12.70%	14.17%	14.19%	13.44%	13.28%	13.34%	12.99%

Source: The Governor's Office of the Budget

Notes:

(A)-The formula for the legal debt limit is contained in Article VIII, Section 7(a) of the Pennsylvania Constitution, which provides:

No debt shall be incurred by or on behalf of the Commonwealth except by law and in accordance with the provisions of this section.

(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority by the electors prior to the adoption of this article.

(2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.

(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

(B)-Each of the above figures used in the calculation of the legal debt margin are abstracted from a certification of the Auditor General dated August 31 of the subsequent fiscal year.

Commonwealth of Pennsylvania

Demographic and Economic

Table 14

Employment by Nonfarm Related Industry
For the Last Ten Calendar Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Employment by nonfarm related industry (1)(2):										
Total nonfarm:										
Private earnings:										
Goods producing:										
Natural resources and mining	20,800	20,300	19,400	19,500	18,800	17,900	18,700	19,700	20,400	21,200
Construction.....	220,800	234,500	247,300	249,900	248,100	245,700	249,200	255,700	261,000	262,900
Manufacturing	871,800	862,400	862,300	820,600	758,900	711,600	690,100	679,400	670,300	657,800
Total goods producing.....	1,113,400	1,117,200	1,129,000	1,090,000	1,025,800	975,200	958,000	954,800	951,700	941,900
Service providing:										
Trade.....	1,084,400	1,109,500	1,136,500	1,129,900	1,119,500	1,114,600	1,119,800	1,120,200	1,125,700	1,134,400
Information.....	123,100	128,700	135,700	135,400	128,200	120,400	112,100	109,500	108,200	107,200
Financial activities	329,800	335,200	338,100	338,300	336,200	337,900	335,700	335,700	335,000	332,300
Professional and business services	571,100	594,100	611,200	612,300	604,600	609,400	637,200	660,500	685,300	704,400
Education and health services	897,100	903,500	917,000	939,100	963,400	979,000	997,900	1,030,000	1,054,400	1,074,400
Leisure and hospitality	429,200	440,300	448,800	454,400	465,200	469,400	475,700	484,800	491,800	499,700
Other services	235,200	242,000	249,900	254,800	259,000	259,800	263,400	261,600	258,400	257,100
Total service providing.....	3,669,900	3,753,300	3,837,200	3,864,200	3,876,100	3,890,500	3,941,800	4,002,300	4,058,800	4,109,500
Total private earnings.....	4,783,300	4,870,500	4,966,200	4,954,200	4,901,900	4,865,700	4,899,800	4,957,100	5,010,500	5,051,400
Government	711,500	715,600	725,100	728,300	738,900	745,600	744,400	745,100	745,600	744,400
Total nonfarm.....	5,494,800	5,586,100	5,691,300	5,682,500	5,640,800	5,611,300	5,644,200	5,702,200	5,756,100	5,795,800

Source: Information provided by the Pennsylvania Department of Labor and Industry-Center for Workforce Information & Analysis. The information for the 2006 and 2007 calendar years was obtained from the Pennsylvania Department of Labor and Industry website at: <http://www.paworkstats.state.pa.us/analyzer/startanalyzer.asp>.

Notes:

- (1)-Due to statutory requirements (confidentiality provisions), the Commonwealth can not disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the Pennsylvania Department of Labor and Industry.
- (2)-Data presented for calendar years 1998-2006 are estimates that were benchmarked to universe counts derived from administrative files of employees covered by unemployment insurance. As a result of this benchmarking, the data provided for the 2006 calendar year has changed from what was presented in this table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2007 fiscal year. The amount presented in the 2007 calendar year is a sample-based estimate that has not been benchmarked.

Commonwealth of Pennsylvania

Demographic and Economic

Table 15

Population and Per Capita Personal Income

For the Last Ten Calendar Years

Calendar Year	Population (1) (Expressed in thousands)			Personal Income (2) (Expressed in millions)			Per Capita (3) Personal Income		
	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania percentage above/(below) U.S.
1998	12,246	275,854	4.44%	\$ 330,161	\$ 7,415,709	4.45%	\$ 26,961	\$ 26,883	0.29%
1999	12,264	279,040	4.40%	342,612	7,796,137	4.39%	27,937	27,939	-0.01%
2000	12,286	282,194	4.35%	364,837	8,422,074	4.33%	29,696	29,845	-0.50%
2001	12,288	285,112	4.31%	372,339	8,716,992	4.27%	30,302	30,574	-0.89%
2002	12,306	287,888	4.27%	382,252	8,872,871	4.31%	31,063	30,821	0.79%
2003	12,327	290,448	4.24%	393,908	9,150,320	4.30%	31,954	31,504	1.43%
2004	12,349	293,192	4.21%	413,855	9,711,363	4.26%	33,514	33,123	1.18%
2005	12,367	295,896	4.18%	429,506	10,252,849	4.19%	34,729	34,650	0.23%
2006	12,403	298,755	4.15%	455,518	10,977,312	4.15%	36,727	36,744	-0.05%
2007	12,433	301,621	4.12%	481,641	11,631,571	4.14%	38,740	38,564	0.46%

Sources: Population data is obtained from the Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce website at <http://www.bea.gov/bea/regional/spi/default.cfm>, whose source is the U.S. Bureau of Census' December 2007 release of annual population estimates. Personal income details can be found in Table 5.

Notes:

(1)-Population data is presented as of July 1 of the calendar year. The U.S. Bureau of Census' December 2007 release included revisions to the annual population estimate back to the 2000 calendar year. Therefore, the totals shown may differ from what was presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2007 fiscal year.

(2)-Personal income data is provided as of the calendar year. Calendar years 2004-2006 differ from the totals presented in the June 30, 2007 CAFR. See Table 5 for details.

(3)-As a result of changes noted in Notes (1) and (2), the Per Capita Personal Income may differ from what was presented in the June 30, 2007 CAFR.

Commonwealth of Pennsylvania

Demographic and Economic

Table 16

Employment Information

For the Last Ten Calendar Years

(Expressed in thousands)

Calendar Year	Pennsylvania (1)				United States				PA rate percentage Above/(Below) U.S. Rate
	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	
1998	6,068	5,788	281	4.6	137,673	131,463	6,210	4.5	2.22%
1999	6,078	5,810	268	4.4	139,368	133,488	5,880	4.2	4.76%
2000	6,086	5,831	255	4.2	142,583	136,891	5,692	4.0	5.00%
2001	6,168	5,874	293	4.8	143,734	136,933	6,801	4.7	2.13%
2002	6,218	5,869	349	5.6	144,863	136,485	8,378	5.8	-3.45%
2003	6,145	5,796	349	5.7	146,510	137,736	8,774	6.0	-5.00%
2004	6,205	5,868	338	5.4	147,401	139,252	8,149	5.5	-1.82%
2005	6,257	5,946	311	5.0	149,320	141,730	7,591	5.1	-1.96%
2006	6,290	6,003	287	4.6	151,428	144,427	7,001	4.6	0.00%
2007	6,287	6,013	274	4.4	153,124	146,047	7,078	4.6	-4.35%

Sources: Information was obtained from the Center for Workforce Information & Analysis, Pennsylvania Department of Labor and Industry website at <http://www.paworkstats.state.pa.us/analyzer/startanalyzer.asp>.

Notes:

(1)-Beginning with the 2003 Calendar Year, the amounts presented for Pennsylvania may differ from the amounts presented in the same table in the June 30, 2007 CAFR, as a result of revised data provided on the Pennsylvania Department of Labor and Industry website.

Commonwealth of Pennsylvania**Operating Information**

Table 17

Commonwealth Employees by Function and Agency

For the Last Ten Fiscal Years Ended June 30

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Direction and supportive services										
Legislative.....	2,751	3,018	3,040	3,095	3,161	3,206	3,268	3,336	3,339	3,346
Revenue.....	2,406	2,454	2,519	2,421	2,382	2,272	2,322	2,377	2,385	2,374
Executive Offices.....	2,508	2,521	2,569	2,611	2,513	1,986	1,962	1,990	1,966	2,012
General Services.....	1,249	1,267	1,338	1,319	1,313	1,242	1,255	1,295	1,305	1,251
Auditor General.....	780	793	799	785	770	768	736	740	711	730
Treasurer.....	517	551	543	537	524	511	497	534	565	552
Other.....	600	556	602	643	361	425	379	376	327	327
Total direction and supportive services.....	10,811	11,160	11,410	11,411	11,024	10,410	10,419	10,648	10,598	10,592
Protection of persons and property										
Corrections.....	12,831	13,707	14,421	14,612	14,323	14,384	14,826	15,301	15,441	15,722
State Police.....	5,507	5,564	5,648	5,673	5,705	5,790	6,039	6,191	6,272	6,249
Liquor Control Board.....	3,860	3,941	4,032	4,146	4,205	4,407	4,580	4,772	4,704	4,835
Environmental Protection.....	2,890	2,965	3,022	3,016	2,938	2,836	2,831	2,890	2,799	2,793
Judiciary.....	1,775	1,940	1,962	2,048	2,031	2,100	2,102	2,140	2,130	2,136
Transportation.....	-	-	-	-	-	1,208	1,253	1,251	1,253	1,235
Agriculture.....	809	815	903	973	950	997	968	1,032	1,056	1,187
Probation and Parole Board.....	892	917	951	975	966	972	1,001	1,008	967	1,084
Attorney General.....	955	971	1,017	990	952	944	886	919	935	985
Public Utility Commission.....	499	502	509	503	494	467	469	529	485	519
Military and Veterans Affairs.....	-	-	-	-	-	459	489	529	517	538
Other.....	1,103	1,110	1,139	1,170	1,310	2,012	2,025	2,106	2,088	2,085
Total protection of persons and property.....	31,121	32,432	33,604	34,106	33,874	36,576	37,469	38,668	38,647	39,368
Public education										
Education.....	1,230	861	908	873	852	624	672	674	665	693
Other.....	20	19	22	21	20	20	18	18	18	18
Total public education.....	1,250	880	930	894	872	644	690	692	683	711
Health and human services										
Public Welfare.....	22,322	21,575	21,480	21,115	20,189	19,773	19,769	19,655	18,786	19,082
Labor and Industry.....	5,585	5,480	5,557	5,841	5,821	4,431	4,370	4,462	4,277	3,960
Military and Veterans Affairs.....	1,868	1,964	2,053	2,106	2,262	1,939	2,015	2,060	2,095	2,128
Health.....	1,258	1,305	1,347	1,399	1,444	1,404	1,429	1,524	1,465	1,511
Other.....	103	101	107	108	104	99	109	112	107	102
Total health and human services.....	31,136	30,425	30,544	30,569	29,820	27,646	27,692	27,813	26,730	26,783
Economic development										
Labor and Industry.....	-	-	-	-	-	923	911	960	927	911
Community and Economic Development.....	313	322	325	327	296	298	324	336	346	349
Total economic development.....	313	322	325	327	296	1,221	1,235	1,296	1,273	1,260
Transportation										
Transportation.....	12,094	12,302	12,360	12,393	12,086	10,645	10,578	10,810	10,509	10,770
Recreation and cultural enrichment										
Conservation and Natural Resources.....	2,690	2,742	2,775	2,768	2,707	2,632	2,608	2,639	2,573	2,632
Game Commission.....	692	747	810	769	754	758	734	732	734	725
Fish and Boat Commission.....	521	522	537	514	468	482	492	497	514	508
Historical and Museum Commission.....	462	480	494	504	503	488	444	435	419	399
Other.....	20	20	20	20	20	116	111	114	113	111
Total recreation and cultural enrichment.....	4,385	4,511	4,636	4,575	4,452	4,476	4,389	4,417	4,353	4,375
Total Commonwealth Employees.....	91,110	92,032	93,809	94,275	92,424	91,618	92,472	94,344	92,793	93,859

Source: Employees for the Legislature, Judiciary, Auditor General, Treasury and Attorney General were provided by the individual agency. All other agencies fall within the Governor's jurisdiction and were provided by the Office of Administration.

Notes: Beginning with the 2004 fiscal year, employee data was available both by function and agency and is shown appropriately in the table. For the fiscal years prior to 2004 employee data was only available by agency. For purposes of this table, the complement for fiscal years 1999 through 2003 is reported by function based on the agency's most prevalent functional activity.

Commonwealth of Pennsylvania**Operating Information**

Table 18

Operating Indicators by Function and Agency

For the Last Ten Fiscal Years Ended June 30

	1999	2000	2001	2002	2003	2004	2005	2006	2007(9)	2008(9)
GOVERNMENTAL ACTIVITIES										
Direction and supportive services:										
Executive Offices										
Office of Administration										
Contact hours of briefings/training for Human Resource professionals/others.....	N/A	N/A	N/A	N/A	N/A	N/A	14,778	18,000	18,000	18,000
Treasury										
Disbursements - checks.....	6,400,000	6,317,110	8,454,206	5,831,568	6,012,497	5,217,339	5,000,249	4,838,121	4,515,966	3,948,606
Disbursements - wires.....	3,300,000	3,628,047	3,947,535	4,269,328	4,571,640	5,355,924	6,047,788	6,484,759	6,694,219	6,403,286
Total disbursements.....	9,700,000	9,945,157	12,401,741	10,100,896	10,584,137	10,573,263	11,048,037	11,322,880	11,210,185	10,351,892
Legislature										
General and appropriation acts (1).....	N/A	291	N/A	433	N/A	385	N/A	364	N/A	116
House/Senate bills introduced (1).....	N/A	4,481	N/A	4,613	N/A	4,242	N/A	4,450	N/A	3,399
Protection of persons and property:										
Corrections										
Inmates (2).....	36,377	36,384	36,810	37,995	40,090	40,817	40,965	42,446	44,365	46,028
Inmates enrolled in academic educational programs (2).....	9,190	9,162	10,357	10,600	11,286	11,749	11,680	13,457	14,453	15,013
Environmental Protection										
Inspections completed	N/A	N/A	N/A	N/A	N/A	100,042	104,237	82,392	76,000	80,000
Revenue										
Total - electronic.....	N/A	N/A	N/A	N/A	N/A	2,272,861	2,520,663	2,813,228	3,040,325	3,075,000
Total - paper.....	N/A	N/A	N/A	N/A	N/A	3,494,305	3,288,166	3,994,634	2,076,124	2,875,000
Total personal income tax returns processed.....	5,704,755	5,707,558	5,895,045	5,901,402	5,862,231	5,767,166	5,808,829	6,807,862	5,116,449	5,950,000
State Police										
Traffic citations issued.....	486,104	449,430	484,749	503,352	484,602	438,328	451,160	479,086	506,844	507,350
Criminal arrests for crimes against persons or property (3).....	12,440	11,534	12,288	12,600	12,122	12,030	13,024	14,054	12,912	13,245
Background Checks:										
Firearms checks conducted for the purchase of a firearm.....	N/A	N/A	N/A	N/A	N/A	10,406	514,287	512,686	503,013	505,528
Criminal history checks for employment purposes.....	N/A	N/A	N/A	N/A	N/A	964,507	1,074,325	1,183,426	1,157,483	1,215,357
Judiciary										
Caseload (cases filed/reopened/appeals) (2).....	3,726,054	3,581,305	3,709,824	3,813,843	3,789,239	3,598,042	3,790,068	3,783,987	3,816,270	3,832,658
Public education:										
Education										
PreK-12 EDUCATION (BASIC EDUCATION):										
Public school enrollment (preK-12) (4).....	1,816,566	1,816,716	1,814,311	1,821,627	1,816,747	1,821,146	1,828,089	1,830,684	1,810,430	1,797,520
HIGHER EDUCATION:										
Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:										
State System of Higher Education.....	88,160	89,010	89,924	93,520	96,235	95,523	98,657	100,392	102,445	103,510
Community Colleges.....	64,808	64,394	67,030	75,088	80,874	86,935	88,494	88,150	91,161	92,346
State-Related Universities.....	128,967	130,805	133,200	136,581	140,375	140,806	140,697	139,894	144,993	146,468
Non-State Related Universities and Colleges.....	35,034	36,626	38,199	39,399	39,741	41,678	43,106	43,662	48,078	49,221
Health and human services:										
Aging										
Comprehensive PACE/PACENET Program:										
Older Pennsylvanians enrolled (average).....	251,314	240,298	232,372	230,949	223,119	242,755	290,482	306,138	219,350	201,780
Total prescriptions per year.....	9,140,390	9,530,401	9,744,249	10,228,661	10,672,686	10,888,090	12,794,090	13,253,256	7,705,695	7,027,147
Health										
Surveys completed in a timely manner by facility type:										
Hospitals within 24 months	N/A	N/A	N/A	N/A	115	115	115	127	116	116
Nursing homes surveys completed within 15 months.....	N/A	N/A	N/A	N/A	744	735	736	763	732	740
Intermediate care facilities/MR within 12 months.....	N/A	N/A	N/A	N/A	186	186	194	215	207	210
Home health agencies within 12 months.....	N/A	N/A	N/A	N/A	364	364	364	400	380	380
Vital events (births, deaths, fetal deaths) registered and processed (5).....	390,367	397,495	390,134	328,033	272,860	274,664	273,432	274,105	275,261	275,000
Total number of encounters by State Health Care Centers.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	375,240	511,736	516,853
Public Welfare										
Persons participating in Medical Assistance (monthly average).....	1,419,562	1,409,095	1,433,228	1,476,708	1,533,024	1,621,901	1,747,615	1,833,760	1,883,235	1,915,240
Persons receiving cash assistance (monthly average).....	333,740	272,990	242,214	229,660	225,396	250,581	278,474	278,496	250,687	228,400
Children participating in subsidized child care (unduplicated).....	N/A	N/A	N/A	N/A	182,102	185,971	195,211	200,650	212,112	232,025

Commonwealth of Pennsylvania**Operating Information**

Table 18

Operating Indicators by Function and Agency

For the Last Ten Fiscal Years Ended June 30

	1999	2000	2001	2002	2003	2004	2005	2006	2007(9)	2008(9)
Total persons provided mental health services (6).....	204,076	200,732	203,812	207,269	202,460	208,345	398,590	418,749	517,440	521,943
Persons receiving Mental Retardation services during fiscal year (7).....	73,900	74,000	76,988	82,220	85,000	89,985	72,538	45,414	50,139	53,603
Economic development:										
Community and Economic Development										
Jobs pledged to be created in Business and Technology Development.....	N/A	N/A	N/A	N/A	N/A	63,870	78,500	154,951	155,912	74,795
Jobs retained in Business and Technology Development.....	N/A	N/A	N/A	N/A	N/A	54,209	108,864	92,768	126,479	142,656
Total Jobs created/retained in Business and Technology Development (8).	150,969	185,520	249,876	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Businesses Assisted in Business and Technology Development.....	2,451	2,662	2,739	8,243	9,113	22,305	19,781	16,215	18,454	18,818
Local Governments assisted.....	664	675	420	475	594	766	711	1,265	764	720
Persons participating in Community Services Block Grant.....	330,000	244,844	243,497	272,983	270,006	324,436	339,564	339,564	339,564	339,564
Labor and Industry										
Total public health and safety inspections performed.....	131,215	131,365	135,590	135,567	134,352	122,584	117,056	82,123	80,408	81,000
Total Vocational Rehabilitation Caseload.....	74,999	78,138	77,622	81,391	83,696	82,262	86,814	84,619	83,241	83,241
Transportation:										
Transportation										
Miles of State maintained highways.....	40,162	40,101	40,051	39,935	39,906	39,893	39,890	39,890	39,843	39,818
Passengers carried by State-assisted operators (millions annually).....	282.5	293.7	310.1	301.8	301.9	303.5	310.0	400.8	389.6	402.0
Safety and Emissions inspections.....	12,657,225	12,641,070	13,603,449	13,589,000	13,617,103	15,000,000	17,100,000	17,388,858	17,470,970	17,630,000
Registrations:										
Registrations-Total New and Renewed.....	9,921,000	10,015,000	10,052,000	9,825,000	10,099,000	9,978,000	10,017,000	9,864,461	9,708,974	9,736,890
Licensed drivers-Total New and Renewed.....	2,259,500	2,284,900	2,320,900	2,130,859	2,302,100	2,476,213	2,377,057	2,345,311	2,274,866	2,420,000
Recreation and cultural enrichment:										
Conservation and Natural Resources										
State park attendance (visitor days per calendar year).....	34,700,000	36,712,000	36,438,000	36,627,000	36,031,000	34,692,000	35,095,476	36,295,873	35,800,000	35,900,000
Fish and Boat Commission										
Fishing licenses sold.....	978,925	934,723	953,032	935,845	907,313	909,053	834,877	843,302	864,416	865,000
Game Commission										
Hunting licenses sold.....	961,662	1,033,315	1,038,846	1,047,820	1,017,154	1,018,248	1,007,613	964,158	945,892	945,000
Historical and Museum Commission										
Records maintained by the State Records Center.....	N/A	N/A	N/A	N/A	N/A	709,821	726,747	753,354	791,553	801,747
Annual visits to commission historical sites and museums (in thousands)...	1,244	1,273	1,295	1,406	1,517	1,528	1,477	1,516	1,420	1,555
BUSINESS-TYPE ACTIVITIES										
Labor and Industry										
Number of new unemployment compensation claims.....	1,138,641	1,036,558	983,951	1,309,511	1,314,267	1,341,118	1,177,499	1,148,256	1,176,669	1,250,506

Sources: Governor's Office of the Budget, comptroller offices, various agencies**Notes:**

(1) Legislation acts and bills are presented per the Legislature's two-year session. Amounts presented for the 2007-2008 session are not final, since the session has yet to be completed.

(2) Amounts are presented as of December 31.

(3) Arrests per 100,000 population in State Police jurisdiction areas.

(4) PreK enrollment is not included through the 2003 fiscal year.

(5) The decrease in Vital Events from 2001 to 2002 is due to Act 82 of 2001, which eliminated some requirements for the processing of marriage and divorce records.

(6) Beginning with the 2005 fiscal year, this amount was revised to include individuals receiving services from community mental health funds, Medical Assistance expenditures, and BHSI funds.

(7) Beginning with the 2005 fiscal year, this amount was revised to remove those receiving Early Intervention services.

(8) Beginning with the 2002 fiscal year, this category was reevaluated and then no longer measured in its current form. Subsequent years are then marked with N/A.

(9) For the 2008 fiscal year, a majority of the indicators presented are estimates. For the 2007 fiscal year, the amounts that were presented as estimates in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2007 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2007 CAFR.

Commonwealth of Pennsylvania**Operating Information**

Table 19

Capital Asset Information by Function and Agency

For the Last Ten Fiscal Years Ended June 30

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GOVERNMENTAL ACTIVITIES										
Direction and Supportive Services										
Department of General Services										
Number of buildings (1).....	33	33	33	33	36	36	36	85	85	87
Total pieces of machinery and equipment (2).....	58	71	80	48	164	137	137	137	139	133
Capital and Agency projects in design and/or construction.....	428	422	426	367	389	375	500	409	440	450
Vehicles in fleet.....	N/A	N/A	N/A	N/A	N/A	N/A	16,544	16,337	16,384	16,307
Protection of persons and property										
Department of Corrections										
State Correctional Institutions (3).....	25	25	25	26	26	26	27	26	26	27
State Police										
Patrol vehicles.....	1,914	2,009	2,199	2,215	2,207	2,188	2,282	2,316	2,173	2,189
Police stations and/or troop headquarters (3).....	20	20	20	20	20	21	23	23	23	23
Department of Military and Veterans Affairs										
Number of armories.....	96	96	97	97	97	96	117	117	117	117
Public education										
State System of Higher Education (SSHE)-Component Unit (4)										
Number of SSHE universities using Commonwealth owned buildings and land	14	14	14	14	14	14	14	14	14	14
Health and human services										
Department of Public Welfare										
Total number of hospital or treatment center complexes (1)(3).....	25	23	22	22	22	22	21	19	19	19
Transportation										
Department of Transportation										
Total pieces of equipment.....	N/A	N/A	25,211	20,434	21,281	21,256	20,858	20,434	22,000	25,000
Total lane miles of highways (state or locally maintained).....	115,467	115,677	115,939	116,282	116,570	115,402	116,055	116,100	116,716	116,952
Recreational and cultural enrichment										
Department of Conservation and Natural Resources										
Acres of land in state parks and forests (in millions).....	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Game Commission										
Acres of game lands (in millions).....	1.36	1.36	1.36	1.41	1.41	1.40	1.40	1.40	1.40	1.40
Fish Commission										
Public boat launches.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	178	153	153
Total number of fish hatcheries.....	15	15	15	15	15	15	15	15	15	15
Historical and Museum Commission										
Museums and historic sites.....	28	28	26	26	26	26	26	25	25	25
Economic Development										
Department of Labor and Industry										
Square footage of rehabilitation centers owned by the Commonwealth.....	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035

Sources: Governor's Office of the Budget, Comptroller Offices and various agencies.**Notes:**

(1)-Beginning with the 2006 fiscal year, the control of the Harrisburg State Hospital was transferred from the Department of Public Welfare (reducing the reported number of hospital complexes) to the Department of General Services (increasing the reported number of buildings).

(2)-Beginning with the 2003 fiscal year, the reported machinery and equipment includes assets that were depreciated in full.

(3)-State Correctional Institutions, police station/troop headquarters and hospital/treatment center complexes include nondepreciable capital assets (i.e. land) and depreciable assets (i.e. machinery and equipment, buildings, improvements, etc.).

(4)-The State System of Higher Education (SSHE) is a discretely presented component unit. However, each of its universities uses land, buildings, and improvements which were purchased by the Commonwealth and are still reported as governmental activities capital assets in the Commonwealth's Statement of Net Assets. See Note A in the Notes to the Financial Statements for a detailed description of this relationship.